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*The weakness of a democratic system and its interplay
with external political economic development — in
case study of Taiwan after 1949*

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A Thesis presented for the degree of Doctor of Philosophy

Declaration

This thesis is the result of my own work. Material from the published or unpublished work of others which is used in the thesis is credited to the author in question in the text

Total Words: 80,538

Signature:

Date: 30th September 2011

Abstract

The major work of this research is to understand the characteristics and uniqueness of Taiwan's democratic development. The weaknesses and problems of this democratic system are believed to be influential to its external political economic development especially when the Cross-Strait economic interaction is getting closer and become the most significant issue for the island's further economic development.

In order to prove this argument, the research focuses on two major theories in the fields of democratic development and international political economy (IPE). The democratic development theories include the discussion of democratization (modernization, transition and social structural approach), democratic institutions (institutional choice and its political consequence), civil society and political culture. The IPE theories include the discussion of functional work of international economic organizations, type of trade, capital flow, and role of Multinational Corporations (MNCs). After reviewing the literatures about these two major theories, the researcher tries to apply these theoretical discussions into the case of Taiwan and createS a four-level analytical framework (democratic values, institutions choice and design and civil society) to examine and explain the interrelation between the weakness of Taiwan's democratic system and its effects on the Cross-Strait economic interaction.

There are two parts of empirical research in this dissertation to enhance the idea mentioned above. The first part is the historical discussion in the chapters 5 and 6 which focus the sixty-one-year process (1949-2008) of the island's gradually established democratic system under various periods of international political economy environment. The second part is the investigation on the current political situation of the island after the second party alternation and reconciliation of cross strait relations with a series of political talks and economic cooperation after 2008. In Chapter 7, the research focuses on Kuomintang (KMT) and its mainland policy; In Chapter 8, the discussion changes the focuses on the role of Democratic Progressive Party (DPP) and its different perspectives on the development of further Cross-Strait interaction.

The major finding of this research is the fundamental weakness of Taiwan's democratic system due to the long-existing Blue-Green Conflicts. The uniqueness had created the difficulties (dispute over One China Principle) for the nascent democracy to establish an efficient democratic system which is very influential to make useful economic policies especially the appropriate trade relations and commercial cooperation with China (including how to support Taishang). Nevertheless, the research of this dissertation also finds that the closer cross strait interaction after 2008 did not produce a direct, manifest and complete influence on the island's internal social economic development, as well as the change of the democratic system.

Acknowledgments

I am heartily thankful to my supervisor, Dr. Gordon Cheung, whose encouragement, supervision and support from the preliminary to the concluding level enabled me to develop an understanding of the subject.

This dissertation includes information from various interviews with legislators, public officials, campaign workers, journalists and scholars. I am deeply grateful those who agreed to be interviewed, and to the many other Taiwanese compatriot who have shared their thoughts and experiences with me over my years of research and investigation.

I wish to thank Professor Beatrice Leung, Precious Blood Convent, Macau SAR China, for all her help and encouragement over the years, and especially for reading this manuscript. Her comments improved it greatly.

I owe a special thank you to Mr. Li Fong, who gave me a lot of financial support and kindly encouragement when I felt alone in England. In addition, your life experience in mainland China and unique perspectives on CCP are actually the best inspiration for my research especially the works during the crucial months of this project.

I wish to show my best appreciation to my dearest parents. Without my parents, especially my father, Mr Li Ze-ren , who is already 80 years old, I could not have written this dissertation. His encouragement, good cheer, sense of adventure and financial support make all my work possible. Above all, his personal experience and background are undoubtedly very helpful for my historical research (He is one member of KMT landing troops in 1949 and 61-year life experience in Taiwan is undoubtedly the best witness of reduced ethnical mainlanders - Taiwanese tension and history of the island's successful democratic transition). The deepest love and respect to my father is the major motivations for myself to understand and clarify the past problems and further direction of Taiwan political and economic development.

I wish to thank the people of Taiwan. I strongly have confidence that your fearless embrace of past social and political change and glory of economic achievement will be the best basis for the future challenge and opportunities from the mainland China.

Lastly, I offer my regards and blessings to all of those who supported me in any respect during the completion of the project.

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Chapter 1 Introduction

1.1 Background

The history of democratic development in Taiwan is short, but in addition to its outstanding economic performance after 1980, the small and populous island had also produced another miracle: a democratic system that was established in the late 1990s and made vigorous progress for twenty years. Since martial law was lifted in 1987, regular elections for different levels of public officials and representatives have been held regularly and the high voting rate, especially in the four presidential elections from 1996, shows very enthusiastic political participation and that democracy has been well accepted and appreciated by both the elite and the public as a suitable system of government for Taiwan.

However, the development of democracy in Taiwan is not solely a romantic story. The process of democratic development is also related to the long-existing ethnic conflicts between 1949 mainland immigrants (mainlanders) and local Taiwanese. These conflicts are also combined with the political struggles between Kuomintang (KMT) and the grass-roots opposition – mainly the Democratic Progress Party (DPP) which was established in 1986 at almost the same time as martial law

was lifted. The political struggle is also called the Blue–Green Conflicts.¹ The peoples and political groups consider each other as anti-democratic, but this research will provide evidence that each of them actually did contribute to the island's democratic development, albeit in different ways and with contrary perspectives. Democracy has merely provided them with a fair set of rules/games to compete with each other in order to win power and popular support.

The electoral victory of Ma Ying-jeou in the 2008 presidential election suggests that the problems of ethnic conflicts and the national identity dispute mentioned above were not serious. A typical KMT mainlander politician, who was known to be pro-reunification with China, not born in Taiwan and very unfamiliar with speaking Taiwanese (a variant of Min Nan), Ma still received ,unprecedented prominent support and led the KMT's return to office after it had lost power eight years previously. For Taiwanese democratic development, the KMT's return to power in

¹ The Pan-Blue Coalition is a political coalition consisting of the Kuomintang (KMT), the People First Party (PFP), and the smaller New Party (CNP). The name comes from the party colours of the Kuomintang. This coalition tends to favours a Chinese nationalist identity over a Taiwanese separatist one and favours a softer policy and greater economic linkage with the People's Republic of China. It is opposed to the Pan-Green Coalition. The Pan-Green consists of the Democratic Progressive Party (DPP), Taiwan Solidarity Union (TSU), and the minor Taiwan Independence Party (TAIP). The name comes from the colours of the Democratic Progressive Party, which originally adopted green in part because of its growth from grass-root level. In contrast to the Pan-Blue Coalition, the Pan-Green Coalition favours Taiwan independence over Chinese reunification

some aspects explains that “party alternation” has become a normal condition in Taiwan, which is in fact one of the major characteristics of a mature democratic system. Meanwhile, it is also good to see that the process was very smooth, peaceful and without any violence – even when the outbreak of a series of corruption scandals regarding former president Chen Shui-bian at the end of 2006 shamed the reputation of the island’s democratic performance and stimulated a large street demonstration in which thousands of people wanted Chen to step down (a potentially violent confrontation). The Taiwanese people finally used their vote to achieve their goal, demonstrating that the general public of Taiwan are democratic citizen with excellent civic virtues, and that not only is a modern democratic citizen capable of questioning authority and evaluating the performance of those in office, but also has the willingness to listen to different opinions and is capable of participating in public affairs with a rational –critical discourse and action. Those qualities will be discussed more in Chapter 3 (Democratic theories and uniqueness of Taiwan democracy).

Nevertheless, the island’s democracy is still considered as a nascent and in need of further consolidation owing to several problematic institutions, including: the semi-presidential system (executive level); the single-member district dual ballot system for legislators (legislative level); and the public referendum which had separately caused various difficulties in view of establishing an efficient government,

fair elections and a non-controversial public policy. As the first democratic system in the Chinese community, the design, test, work and future development of these institutions are undoubtedly very significant issues in order to allow those concerned with Taiwan's democratic development to understand and investigate whether this system can survive and be maintained in the future. In fact, the major political groups between both sides including the KMT, DPP, even the Chinese Communist Party (CCP) all have their own understanding and interpretation on the meaning of democracy. These political values undoubtedly influence the nature and direction of this democratic system.

In addition to demonstrating the potential democratic development of the Taiwan democratic system, the economic relationship with China (or the Cross-Strait Relations – this term will be adopted as the major description of the relations between Taiwan and China in this dissertation) is undoubtedly the most important external factor to the island's further possible change and development. In the meantime, the characteristics, uniqueness, even weaknesses or problems of this nascent democratic system are also believed to be influential to the island's international political and economic development, especially when the island's economy has been gradually influenced and transformed by the growing economic power of mainland China (China provided very attractive and advantageous incentives for Taiwan companies

including low taxes, cheaper labour and a fast growing potentially huge domestic market) after 1990 . The dispute whether Taiwan should be more integrated with mainland China or keep a certain degree of political and economic autonomy has been combined with the problems of national identify cleavages and has become the major issue for the political competition and public policy making. The dispute also reflects three major problems and weaknesses of this democratic system that affect the normal work of cross-strait political dialogues, trade and commercial cooperation. First, the so called Blue–Green Conflicts have diversified the direction and priority of the island’s external political and economic development. The structural cleavage in national identity (reunification or independence), social class (mercantilism or fair social wealth distribution), and regional development (north or south) have caused a cycle of “self contradiction”, instability and incoherence if party alternation becomes a rule which is good for the normal work of a democratic institution but may be disadvantageous for an efficient and stable mainland, and foreign and social economic policy making. Second, the shortcomings of incomplete democratic institutions, especially the high possibility of minority or divided government, will also reduce the island’s momentum to concentrate its limited energy and resource to develop its export-led economy, upgrade the recently developed high-tech industry, and maintain international competition. Third, the island’s gradually emerging “M-Shaped Society”,

the widening poverty gap between rich and poor, also make it possible that the psychology of the island's general public may become more isolated and marginalised when this social economic inequality is expanding. In fact, the reconciliation of the cross-strait and the later series of political talks and economic cooperation after 2008 coincidentally provide another dimension to test this issue. Whether deeper economic integration with China may worsen the social economic inequality mentioned above and further cause any political consequences, such as an extreme or serious political confrontation with China, is an interesting and significant topic for a further research.

1.2 Aim of this research

The aim of this research is to understand the characteristics and uniqueness of Taiwan's democratic development. The weaknesses and problems of this democratic system are believed to be influential to its external political economic development, especially the closer Cross-Strait economic interaction after 2008. The major work of this research is divided into three parts: first, the literature review and conceptual framework building; second, historical discussion; and third, the empirical studies of democratic development and cross-strait relations after 2008. Each part consists of two chapters of discussion.

1.3 The plan of this dissertation

The first part of research focuses on two major theories in the fields of democratic development and international political economy (IPE), and the researcher will try to apply these theories to clarify the characteristics and uniqueness of Taiwan democratic development after 1949 and the dynamic change of Cross-Strait relations after 1990. The second part is the historical discussion in Chapters 5 and 6 which focus on the sixty-one-year history (1949–2008) of the island's gradually established democratic system under various periods of external political and economic situations. The third part is the examination of democratic development and its impact on Cross-Strait relations after 2008. The researcher will try to clarify whether the nascent democratic system can work well, can be sustained, and even cause an effect on Taiwan's external political economic development, especially the rapprochement of cross-Strait relations after 2008. The details of each chapter are illustrated as follows.

In Chapter 3 (Theories of democracy, critics and Taiwan uniqueness), the researcher will examine the reason and type of democratic transition according to the three major theoretical approaches (modernization, transition and social structural approach). Next, various constitutional choices (forms of government and electoral formula) in the early democratic countries and their political consequence (strengths

and shortcomings) will be fully discussed in Chapter 3.2. Chapter 3.3 explores theories about civil society, and Chapter 3.4 examines the debate regarding whether the culture of a Confucian society like Taiwan is compatible with the logic and concept of a modern democratic system. Finally, in Chapter 3.4, the researcher tries to apply the theories mentioned above to create a theoretical framework in order to examine the case of Taiwan. Several critics on the nascent democratic system including Blue–Green Cleavage (diversified democratic values, problems of minority president and divided government) imbalanced North–South regional development are found and tentatively concluded as unique to, and characteristic of, Taiwan’s democratic development. Moreover, the theoretical findings required more historical evidence to support these discussions and arguments.

In Chapter 4 (IPE Theories and Cross-Strait relations), the researcher directly applies four international political economic theories (international organization, trade and currency policy, the work and characteristics of MNCs) to explain the nature and characters of rapid Cross-Strait economic and commercial exchange after 1990. The discussion includes Taiwan and China’s confrontation in international economic organizations (Chapter 4.1), types of cross-strait trade relations, the effects of the RMB exchange rate (Chapter 4.2), and the role of Taishang in Cross-Strait relations (Chapter 4.3).

The research of this chapter concludes that the “space” of Taiwan’s international economic activities is being gradually limited, even marginalized, since China makes use of its regional hegemonic power with bilateral cooperation to block Taiwan’s international political economic development. Moreover, the island’s internal Blue–Green Cleavage had made very diverse perspectives on the cross-strait economic interaction, and produced completely opposing mainland trade policy orientation (open-door policy or protectionism). This is a hugely disadvantageous for the island’s internal cooperation (there is an existing problem of national identity cleavage) and external efficient political economic development. Meanwhile, a comprehensive number of Taiwanese businesses are moving out of the island (the movements of Taishang² in this research are defined as normal actions of multinational corporations) and therefore worsening the internal problems of gradually expanding social economic inequality.

Chapter 5 discusses the political and economic development during the 40-year Two Chiang authoritarian control period (pre-democracy of Taiwan: Chiang Kai-shek, 1949–1975; Chiang Ching-kuo, 1975–1988). As narrated above and concluded at the end of Chapter 3, more historical evidence of Taiwan’s democratic development’s

² Taishang is Pingying transcription of Taiwan businessmen. It is a widely used term which refers to those Taiwanese businesspeople who are doing business and investment in mainland China especially after 1980s.

uniqueness and characteristics was required. After the discussions of this chapter, the origins and characteristics of the Blue–Green conflicts and the major uniqueness of Taiwan’s democratic development are found in this chapter. The hasty and embarrassing immigration of the KMT regime from mainland China to Taiwan in 1949 had made the ethnic conflicts between minority mainlanders and native Taiwanese unavoidable, to make matters worse, Chiang Kai-shek’s dictatorship and KMT’s authoritarian control in the name of mainland recovery had actually awoken a potential and widespread sense of dissatisfaction, even anger, among the general populace. However, when Chiang Ching-kuo succeeded his father’s political power and stepped into office in 1988, a series of political reforms – especially the Taiwanization policy – limited local elections, and tolerance on growth of opposition were actually considered as a contribution to the later peaceful and smooth democratic transitions. The measurements were also useful for the KMT to consolidate its legitimacy and reduce its tension with local Taiwanese.

Chapter 6 follows the previous historical discussion and focuses on the series of political reforms when two Taiwanese presidents, Lee Teng-hui and Chen Shui-bian, went into power during 1988–2008 (democratic transition under two Taiwanese presidents, Lee Teng-hui, 1989–1998; Chen Shui-bian, 2000–2008). Two most significant changes for the island during these twenty years were the rapid and

complete democratization after a series of constitutional reforms and growing cross-Strait economic and commercial exchanges. Taiwan's five stages of constitutional reform had helped the nascent democratic system become more mature and workable since all the redundant and cumbersome institutions and organizations, including senior parliamentarians (members of National Assembly, Legislative Yuan and Control Yuan are elected by constituencies on mainland China), provincial government and council were all abolished or renewed after the series of political reforms. Meanwhile, the direct elections for the highest political positions including the presidents, the mayors of Taipei and Kaohsiung were successfully held from 1994. However, the series of reforms were also suspicions as a political manipulation and abuse of anti-China sentiment. Chapter 6.2 provides examples that the holding of the "defensive referendum" during Chen's second presidential election was later considered as a useful tool to successfully mobilize DPP core supporters; and reducing the size of the legislature (half the number of legislators) was also believed to be a strategy to bypass Pan-Blue Coalition obstructionism in the Legislative Yuan. Nevertheless, while the Taiwanese were confused at these democratic institutions, the growing cross-Strait economic interaction had made Taiwan gradually lose economic power in order to maintain its political autonomy and cause greater problems for the island's internal cooperation. The rapid exodus of Taiwanese business (Taishang)

from Taiwan to China can be considered as a natural tendency to maintain the Taishang's international competition and global market share, but the large amount of capital and talent outflow had actually hollowed out the island's economy, destroyed the original labour division, and therefore worsened the social economic inequality. The dilemma situation reflects the two presidents' (Lee Teng-hui: "Go Slow, Be Patient"; Chen Shui-bian: "Four Nos, One Have-Not") conservative, passive, even a self-contradictory and inconsistent Mainland policy.

The last two chapters (Chapter 7: the democratic development and Cross-Strait relations after the KMT returned to power in 2008; and Chapter 8: the development of the DPP after it lost power in 2008) are the application of the theoretical framework and historical findings described in Chapters 3–6 for the happenings of the last two years, after Ma and his KMT administration went to the office after 2008. In Chapter 7, the researcher will examine whether Ma's KMT administration can make use of its unprecedented landslide electoral victory to overcome the disturbance from Blue–Green conflicts and comprehensively promote its open-door policy to the mainland in order to reconstruct the island's economy. In addition, whether the existing institutional problems of the established democratic system will cause any effect on the normal work of the Cross-Strait political dialogue (Chiang–Chen Talks), and economic interaction will be the other focus of this chapter (and needed to be

further investigated). The initial findings of this research shows that first, the weakness (Blue–Green Cleavage) and problems (risk of minority president and divided government) of the nascent democratic system have actually caused difficulties for the normal work of Cross-Strait economic interaction the strategy of Ma’s administration is defining the agreement of cross-Strait talks at the “executive and domestic” level, rather than at a “beyond the border” level. Thus, decision making can be easily done through the intra party mechanism. The methods of negotiation have obviously violated the basic democratic norms and principles in terms of transparency and efficient consensus building with the opposition. Meanwhile, the work of Cross-Strait negotiations might not so smooth and efficient in the future if there is another minority president and a divided government, such as the state of affairs during the Chen Shui–bian tenure between 2000–2008. If a divided government happens again, (comparable with the circumstances of the 2000–2008 DPP tenure), it will be seen that an inefficient and inconsistent mainland policy will influence the normal and regular work of Cross-Strait political dialogue and economic cooperation going forward. Second, the closer Cross-Strait interaction after 2008 has not produced a direct, manifest and complete influence on the islands internal social economic development. The effects of the series of KMT open door policies to China are indirect and marginal, such that most people on the island do not have strong

feelings about these major changes in their daily life, excepting those Taiwanese Businessmen (Taishang) who have cause to move between the mainland and Taiwan frequently.

In the final chapter (Chapter 8), the researcher clarified four fundamental problems (social confrontation, erosion of social base, factionalism, and corruption) of the DPP administration's eight years in central power and why it lost the presidential election in 2008. The discussion of this chapter is designed to understand the relationship between the island's democratic system and its effects on the current Cross-Strait economic interaction from the perspectives of the opposition. The result of the studies show that after 2008, the DPP also changed its focus of supervision from the domestic affairs to the rapprochement of Cross-Strait relations (a good example of this can be seen in the choice of newly elected DPP chairman, Tsai Ing-wen – the former vice premier and chairman of the Mainland Affairs Council during the Chen Shui-bian administration). The DPP strongly criticize the non-transparency of Cross-Strait dialogues and the problems of the KMT's open door policies – especially the signing of Memorandum of Understanding (MOU) and Economic Cooperation Framework (ECFA). However, the major argument of this chapter reveals that the popular dissatisfaction with the island's long term economic difficulties (expanding social economic inequality) and existing unbalanced

North–South regional development are still better opportunities rather than the Cross-Strait economic issues for the DPP to reclaim central power in the future. This argument is proved as true since 2009 the DPP have started to win and get more seats in the local level elections for country magistrates, city majors, and by-elections for legislators.

Chapter 2 Research Methods and Methodology

Introduction

The initial stage of this research consists of four major tasks which are all about how to determine a useful strategy and the methods which are essential to the practice and success of this research. These tasks are: Step 1, deciding on the topic of the research project; Step 2, specifying the scope of research; Step3, developing hypotheses to explain its operationalization; and Step 4, developing a conceptual framework showing the relationships between the different hypotheses and variables to be investigated. The details of each task are described as follows:

2.1 The central theme of this research

The title of the research is: “The weakness of a democratic system and its interplay with external political economic development: in case study of Taiwan after 1949”. The weakness of a democratic system here refers to the existing and potential contradictory political values which actually cause the problems to the design and work of a democratic institution. The interplay with international political economic (IPE) development refers to that country’s power and work in any international political economic negotiations, capital flow, efficient trade policy making, and

movement of multi-national corporations. The basic logic of this research is that the author of this dissertation believes the fundamental weakness of Taiwan's democratic system is the long-existing Blue–Green Conflicts. This major political, economic and social cleavage had actually brought about the hasty design and improper transplant of democratic institutions inside the island, and the democratization in Taiwan is suspicious as a process of abandoning the One China principle and the direction of Taiwan's independence. These weaknesses and characteristics will become a boundary for the external political and economic development, especially the direction of the island's economic development which was gradually becoming associated with mainland China after 1990. Meanwhile, on the contrary, the closer Cross-Strait economic interaction will influence the island's economic and social structure, which is also linked to the island's further political development.

2.2 The scope of this research

The research scope includes democracy and IPE theories, with a range of time and focus.

2.2.1 Academic theories

The research focuses on two major theories in the fields of democratic development and international political economy (IPE). The democratic development theories include the arguments of democratization (modernization, transition and social structural approach), democratic institutions (institutional choice and its political consequence), civil society and political culture. After reviewing the general arguments of these theories, the researcher will attempt to develop a framework to explain the case of Taiwan and the other more specific and detailed theoretical arguments, including: national identity issues, constitutional forms of government, electoral formula. Types of government–opposition interaction will be also discussed and applied to examine the uniqueness of Taiwan’s democracy. The IPE theories include the discussion of the functional work of international economic organizations, trade, capital flow, and role of multinational corporations (MNCs). The researcher will directly apply these theoretical discussions to the case of rapid cross-Strait economic and commercial exchange after 1990 and endeavour to determine the possible effects on the development of the island’s democratic system, especially the change of democratic values of the island’s political elite and populace.

2.2.2 Range of time and focus

In addition to the theoretical discussion mentioned above, there are two pieces of empirical research in this essay. The first is the historical discussion in Chapters 5 and 6 which focuses on the sixty-one-year process (1949–2008) of the island's gradually established democratic system during various phases of Taiwan's external political economic environment. The historical research is also divided into two areas of discussion: the 40 years of the Chiang family's authoritarian control (Chapter 4: Pre-democracy of Taiwan: under Two Chiang's Control; Chiang Kai-shek, 1949–1975; Chiang Ching-kuo, 1975–1988); and the 20 years of democratic transition under two native Taiwanese presidents (Chapter 6: Democratic transition under two Taiwanese presidents, Lee Teng-hui, 1989–1988; Chen Shui-bian, 2000–2008) .

In the final two chapters (Chapter 7: the democratic development and cross-Strait relations after the KMT returned to power in 2008; and Chapter 8: the development of the DPP after it lost power in 2008), the researcher will endeavour to clarify the situation as to whether the reconciliation and rapprochement of Cross-Strait political talk and economic interaction after 2000 will cause any change to the Blue–Green Conflicts – a major characteristic of Taiwan's democratic development. The major focus will be the analysis of whether the closer economic cross-Strait relations will reinforce, restrain, or change the psychology of the island's

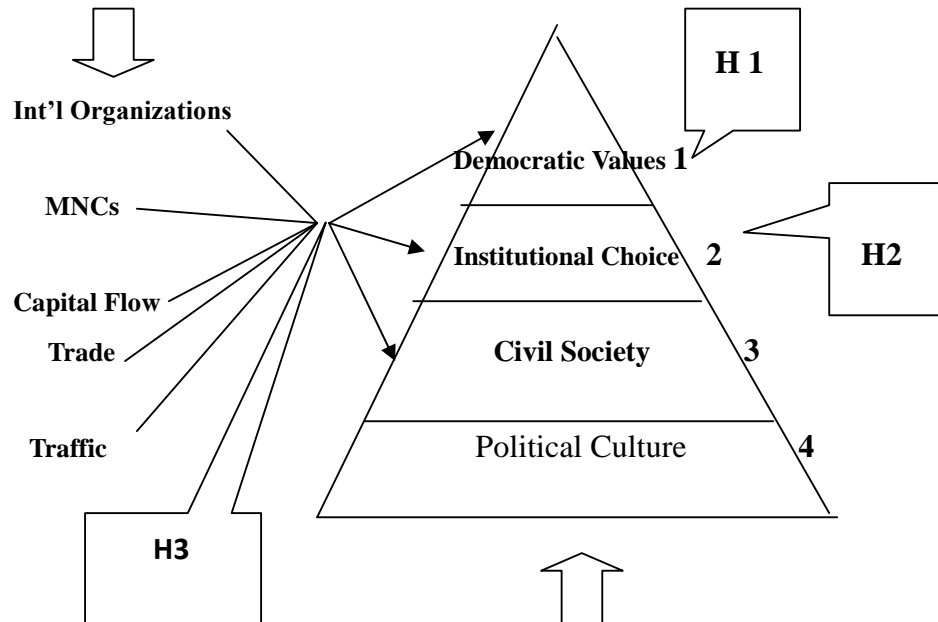
populace and major political leader's ideas and determination to support and consolidate the island's established democratic systems.

2.3 Conceptual framework

The basic hypothesis of this research is a nascent democracy with an export-led economy that were the initial choice of the political elites (not the public), and the elites' political ideas or concepts (including democratic values) are deeply influenced by dynamic changes in the external political economic environment. In the case of Taiwan, this situation has become more obvious since the closer Cross-Strait economic interaction in the late 1990s. Under this hypothesis, in order to understand the nature of Taiwan's "nascent" democratic system and cross-Strait economic relations, after reviewing literatures on democracy and IPE in Chapters 3 and 4, respectively, the researcher has created and developed a four-level analytical framework which resembles a pyramid (Figure 2.1) and has been set up by the researcher as a useful, systematic and multi-dimension conceptual framework to examine the case of Taiwan democratic development (Figure 3.1)– especially in relation to the analysis on the relations between political values and institution building (from level 1 to level 2).

Figure 2.1: The four-level analytical framework on Taiwan democratic development with external political economic factors

The external IPE factors



Source: Author's own compilation

In addition to the four-level analytical dimensions (democratic values, institutional choice, civil society, political culture), the framework also combines the discussion of various external political economic factors, including Taiwan and China's confrontation in international organizations, growing commercial exchange, and trade and capital flow. Moreover, the work and movements of Taishang (in section 4.3, the researcher has defined Taishang as a kind of MNC) is a significant and special phenomenon while discussing Cross-Strait economic interaction. These external political economic factors actually have influence on the island's democratic development, especially the change of the public mindset, the political ideas of the ruling elite, even reshaping the social economic structure. Three major hypotheses are developed that will be tested for correctness in this research, these hypotheses are described as follows.

2.4 Hypotheses

As mentioned above, the basic hypothesis of this research is a nascent democratic system with an export-led economy that were initially decided upon by the political elites (not by the public), and the political elites' ideas or concepts (including democratic values)-are deeply influenced by dynamic changes of the external political

economic environment. The three detailed hypotheses necessitate a significant undertaking for this researcher to supply answers. The first hypothesis (H1) relates to the nature and evolution of the political ideas or concepts of Taiwan's political leaders after 1949, the second hypothesis (H2) relates to the problems of a nascent democratic institutions, and the third hypothesis (H3) tests the external political economic effects on the development of this democratic system.

H1: The function of democracy for Taiwan is to provide a differentiation from CCP China and to reject further political integration with mainland.

The researcher would like to prove that the function of democracy in Taiwan evolved from differentiating between democratic ROC and Communist CCP and became a justification for Taiwan's independence. In other words, the democratic development can be interpreted as the process of abandoning the "One China" principle. In the period controlled by two Chiang presidents (Chiang Kai-shek and Chiang Ching-kuo) their governance is generally considered to have been authoritarian and anti-democratic; however, this researcher still aims to prove there were still democratic ideas in their minds and that these ideas were actually put into practice; that the limited local elections held in the early times were also helpful for the regime to prove the ROC was still the only legitimate government of China; and

to internally ease the tension between the minority ruling mainlanders and majority local Taiwanese. Later, when the two native Taiwanese presidents (Lee Teng-hui and Chen Shui-bian) stepped onto the political platform, and Taiwan had gradually become more isolated in international politics while successfully integrating into the global economy, the established democratic institutions became a very useful tool for the island to win international sympathy and support, causing however, a growing conflict with China as the democratization strengthened the island's resolve to secede from China and build its own country.

H2: Institutionalisation of Taiwan's democratization is established, but not fully developed and working well. The function of democracy described in Hypothesis 1 is the major reason which causes a blind or inappropriate transplant from other leading or near democratic countries (i.e. US and Japan).

Various basic democratic institutions including the semi-presidential system (executive level), the single-member district dual ballot system for legislators (legislative level), and public referendum had already been designed and established within the past twenty years. However, as described in the previous chapter (Introduction) these institutions had separately caused various difficulties including an

unclear division and unclear responsibilities between president and premier, unfair elections (regarding dis-proportionality between votes and seats), and more controversial public policy debate (i.e. the defensive public referendum in 2004 and possible ECFA referendum in 2009). This situation in some aspects explains that the work of institution building might be an outcome of the short-term political struggle rather than the product of long-term rational calculation or good political tradition. The testing of this hypothesis will be proved true after the historical discussion in Chapters 4 and 5 and the empirical studies of Chapters 6 and 7.

H3: As there is deeper integration with the global economic market, the island's international economic competition grows rapidly and hence also the autonomy of the established democratic systems. However, in the meantime, the condition also worsens the island's economic inequality, especially after the rapid Cross-Strait economic interaction since 1990, and has even produced extremist politics.

In Chapter 3 (Theories of democracy) and Chapter 4 (IPE theories and cross-Strait relations), the researcher will argue that the existing unbalanced North–South regional development is the result of the island's economic globalization

and major social economic factors which worsen the Blue–Green Conflicts. The researcher assumes that the situation will be more serious after the rapidly growing cross-Strait economic interaction began in 1990. This truth of this hypothesis will be examined in Chapter 7 (the democratic development and Cross-Strait relations) and Chapter 8 (the development of DPP after it lost power in 2008). The worry of the island’s economic marginalization and growing anti-China resentment will be the major focus whilst discussing the relation of social economic inequality and the further development of Taiwan’s democratic transition.

2.5 Research Methods

The following three methods are specified and considered by the researcher as appropriate for answering the research questions, testing the hypotheses, and investigating the accuracy of the model. However, there are also limitations in these methods and different expectation with the planning after execution.

2.5.1 Documentation

Documentation research is adopted as the major method in the process of theoretical discussion (Chapter 3) which includes retrieving the previous research on general theories in the field of democracy and international political economy,

drawing a general picture of Taiwan's democratic development as well as cross-Strait relations, and building a theoretical framework to answer the research questions and test hypotheses.

The procedure of documentation research is composed of two major steps: First, collecting related materials from diversified resources including books, journals, magazines, newspapers, websites, TV and videos – typically, most materials of this type can be accessed through libraries (for example the main library in Durham University and the ROC National Library); in some cases however, the researcher will utilise online search engines or need to trace references in other articles to obtain a selected readings. Second, a combination of extensive and intensive reading on selected materials that includes accumulating materials by note taking, filtering useful and important information, integrating different arguments systematically, and finally developing new ideas about the theories and realities in a creative and practical way. In the entirety of the reading process, this research has followed the principle that the ideas or arguments which are analytical and critical are preferred for the purposes of summarization, evaluation and collection. The collection and analysis of these “secondary data” is a very cost-effective way of discovering what research has already been undertaken on the topic and what evidence is available, also highlighting any areas where new research needs to be done.

2.5.2 Event analysis

In the empirical work of this research (Chapters 5, 6, 7, 8), the technique of content analysis is widely adopted. The objective, systematic, and qualitative description of manifest event of communications recorded on a wide range of material from newspaper reports, TV programmes, radio broadcasts, and internet websites are essential research techniques for the researcher to understand the research questions and test the thesis hypotheses. As the material is public, there are no problems of access or informed consent. Typically, when using event analysis,³ the researcher will analyse the content of different materials according to the following six steps:

1. Select a topic and develop research hypotheses
2. Choose the appropriate communications sources (e.g. newspapers, television programmes, party manifestos)
3. Decide on the basis of sampling the materials
4. Define the categories for analysis
5. Develop the procedure for coding the material
6. Choose the quantitative measure for analysing the data

³ According to Koopmans and Rucht, there are two methods of analyzing social communications: Content analysis, which attempts to be precise, scientific and quantitative; discourse analysis, which is a qualitative technique and sheds light on the importance of language especially political language Bert Klandermans and Suzanne Staggenberg (2002) (ed.), *Methods of Social Movements Research* (University of Minnesota Press), pp. 221–242.

For example, in chapter 7 (the democratic development and cross-Strait relations after the KMT return to power in 2008), the major focus and issue orientation (Step 1: research hypotheses) is around the Ma administration's open door policy, which defined cross-Strait relations as a kind of cooperation status, without hostility to each other. Therefore, the re-rapprochement of Taiwan and China especially in the series of economic interactions after five rounds of Chang–Chen Talks (CC Talks) during 2008–2009 make it foreseeable that any recent information about government new measurements and cross-Strait interactions in the period 2008-2009 from reports and articles on newspapers and magazines (i.e. five CC Talks), TV programmes (i.e. discussion on the Ma administration's performance), government public statistics (i.e. estimated effects of ECFA) will be the major source of data collection in the work of this chapter (Step 2: appropriate communications sources). Meanwhile, the researcher has collected 71 news reports, 6 magazine articles, 9 government official statistic and reports, 1 TV programme video (Step 3: the basis of sampling the materials) and classified the data into 5 major and 8 sub categories (Step 4: the categories for analysis). Among these research materials, international news reports (i.e. Reuters, the *Washington Post*, *New York Times*), the local newspaper written in English (i.e. *Taipei Times*, *China Post*) and the articles which focus more on economic issues (i.e. *Commonwealth Magazine*, *Wealth Invest*

Weekly) are preferentially adopted since the series of cross-Strait economic cooperation and reopened negotiations in 2008–2009 had actually drawn attention from the international community and mostly concerns the international economic effects of this new development and tendency (Step 5: the procedure for coding the material). The quantity of work can be illustrated in Table 2.1: The categories for analysis and source of materials in Chapter 7 (Step 6: quantitative measure for analysing the data).

In Chapter 8 (The DPP after it lost power in 2008), the researcher basically follows similar principles of event analysis skills to collect data and examine the hypotheses. The major focus of this chapter (step 1: research hypotheses) is the role of the DPP in the current transformation of cross-Strait relations and the DPP's response to the island's worsening social economic inequality. In order to understand this topic, the updated and latest information in the period 2008/2009 from reports and articles in newspapers and magazines (i.e. discussion on the reasons of DPP failure in 2008), TV programmes (i.e. the debate of ECFA between Ma Ing-jeou and Tsia Ing-wen), and government public statistics (i.e. the statistic of poverty gap) are also considered as an appropriate data resource (Step 2: appropriate communications sources) for the research. There were 50 news reports, 4 magazine articles, 1 government official statistic and report, and 1 TV programme collected in the work of this chapter. (Step 3:

the basis of sampling the materials). The collected data are classified into 4 major and 9 sub categories. (Step 4: the categories for analysis). Among these research materials, the editorial comments of major newspaper (i.e. *China News*, *United Daily News*, and *Liberty Times*)⁴ and the books which focus on the previous and current developments of the DPP are preferentially adopted since the general public still expect there to be a strong opposition power to supervise the KMT. The question of whether the DPP could emerge from the shadow of former president Chen Shui-bian's corruption scandal, rebuild the party image and strength its function had actually become a major focus for Taiwan's further political development and a symbol of democratic consolidation. Meanwhile, the articles about Taiwan's social economic inequality are also part of the major work in the data collection, as the DPP has traditionally defined itself as disadvantaged social groups. They are more sensitive to the worsening social economical inequality especially after deeper economic integration with Mainland China after the KMT went to office (Step 5: the procedure for coding the material). The quantity of work is illustrated in Table 2.2: The categories for analysis and source of materials in Chapter 8. (Step 6: quantitative measure for analyzing the data)

⁴ In fact, the *China Times* and *United Daily News* are generally considered as pro-Pan Blue news media; On the contrary, the *Liberty Times* is even considered DPP official propaganda.

Table 2.1: The categories for analysis and source of materials in Chapter 7

Source Categories		Newspapers	Magazines	Government Official Report Public Statistics	TV Programmes	Interviews
The ideas and performance of Ma Ying-jeou's administration	Ideas	4				
	Performance	6	1		1	2
Cross-strait negotiations		4				
Cross-Strait	Direct Link	9		1		3
Economic	MOU	9	2	1		
Exchange Proposal	ECFA	8	2	3		1
Outside Negotiation Tables	Participation of International Organizations	5		2		
	Armed Sales	10	1			
Global Financial Crisis		16		2		
Amount		71	6	9	1	6

Source: Author's own compilation

Table 2.2: The categories for analysis and source of materials in Chapter 8

Source Categories		Newspapers	Magazines	Government Official Report Public Statistics	TV Programmes	Interviews
The reasons for DPP failure in 2008	Social Confrontation	3				
	Erosion of social support					
	Factionalism	2	1			1
	Corruption	1				
Development of the DPP after Tsai elected as part chairman	First DPP Female Chairman	5				
	Role of supervision on cross-Strait negotiations	5				
New Social issues for opposition	Poverty Gap	2		1		2
	The effects of ECFA	5			1	
North–South Cleavage		17	3			
Future						2
Amount		40	4	1	1	5

Source: Author's own compilation

2.5.3 In-depth interviews

A series of in-depth interviews is designed as the other useful and supplementary method to make this research more comprehensive and elaborate especially in the historical (Chapters 5 and 6) and empirical discussion chapters (Chapters 7 and 8). As the in-depth interview is a conversation with an individual conducted by someone who usually collects more specific information or has been a key leader or member in the community for a long time, this type of research method is considered to be uncomplicated (just speak to one person and keep her or his attention, rather than having to address a group), detailed (the researcher may even have a chance to follow-up on questions), and suitable for a researcher to understand the relative questions. For example, in Chapter 7 (the democratic development and Cross strait relations after the KMT return to power in 2008), the researcher conducted 25 interviews and selected 6 of them (Table 2.1) to supply explanations and analyses of the cross-Strait interaction after the KMT returned to power in 2008, Owing to the interviewees' backgrounds – experienced staff from a variety of organizations such as travel agency, transportation company (airline, marine), small and medium sized entrepreneur; and two famous KMT politician – the information gained from these interviews was actually very helpful for the researcher to understand more details regarding, and specific effects of, direct link, ECFA and the problems of Ma's

leadership and KMT cooperation. In Chapter 8 (The DPP after it lost power in 2008), the researcher conducted 24 interviews and also selected five of them to supply explanations and analyses of the development and rebuilding work of the DPP after it lost power in 2008. The interviewees here are experienced staff in a house service agency, the Revenue Service department of the government, and famous DPP politicians, and so the information gained from these interviews were also actually very helpful for the researcher to understand in greater detail some specific situations of the island's worsening social economic inequality and the strategy and works of the DPP reforms. In Chapter 4 (Pre-democracy of Taiwan under Two Chiang's authoritarian control) and Chapter 5 (The process of democratic transition after two native Taiwanese presidents, Lee and Chen), the researcher conducted 20 interviews and selected one of them to supply explanations and analyses of the special historical events mentioned in these two chapters. The ideas from interviewees who had actually experienced the historical event – such as the 228 incident (1940s), KMT Taiwanization policy (1970–1980), constitutional reforms (1990), and first party alternation (2000). In other words, the interviews are not only reliable sources of valuable information, but also “one part of Taiwan's democratization history”.

Conclusion

According to the discussion above, in order to understand the motivations and

limitations of Taiwan's democratic development, three stages of work are required to complete this research and testify the hypotheses. The first stage of work (Chapters 3 and 4) contains the literature review about democracy, IPE theories, and various explanations and discussions about the case of Taiwan's democratic development and Cross-Strait relations. As highlighted above, a four-level analytical model and three hypotheses have been created and an analytical framework will be applied as the basic conceptual lens to understand the history (stage 2: Chapters 5 and 6), current situation and further tendency of Taiwan's democratic development (stage 3: Chapters 7 and 8). The result of this work will undoubtedly determine the success or failure of testing the truth of the hypotheses. In addition, three research methods (documentation research, content analysis, and discourse analysis) are skilfully and flexibly applied in this research especially in the later four chapters which are defined by the researcher as the empirical field of this research.

Chapter 3 Theories of Democracy, Critics and Taiwan's Uniqueness

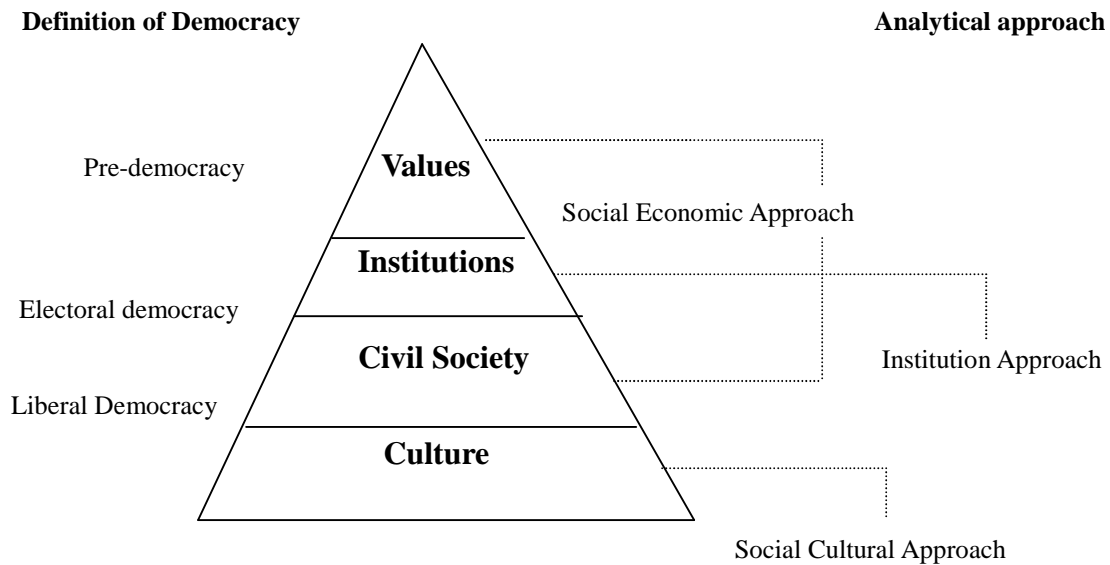
Introduction

While examining the democratic performance in any country which is in the process of democratic transition and consolidation, it is clearly essential before starting the research to define and clarify of the meaning of the different terms used when talking about democracy. Generally speaking, such terms might refer to political values (i.e. government accountability, tolerance on minority and dissident opinions), institution building (i.e. constitutional government, regular elections, and competitive party systems), the emergence of civil society (i.e. voluntary organizations; trust reciprocal network), and political culture (i.e. rational critical discourse; respect to individual and minority rights), all of which are advantageous for long-term democratic development. Figure 3.1 illustrates a four-level analytical framework created by the researcher to aid in understanding the preconditions, processes and shaped social structure of any case of democratic development, this framework offers a systematic concept lens and may be considered as necessary before examining major theories about democracy.

As Figure 3.1 shows, in the first and second levels of discussion, when the elite in power or people in the public start to believe that democracy is the most legitimate form of government, support market structures and a civil society are spontaneously created and gradually separate from state control, further democratization is possible but may occur in different ways.⁵ Contemporary democratic theorists, especially social economic theorists, typically discuss different causes of democratization in this

⁵ Francis Fukuyama, "The Primacy of Culture", *Journal of Democracy*, Vol.6, No.1 (January 1995). pp. 7–14.

Figure 3.1 Levels of Democratic Development



Source: Author's own compilation

level. They argue that the emergence and prevalence of democratic values is the result of economic well-being (modernization theory) and change of social structure (structural theory) despite facing criticism from “transition” theorists who believe democratization is the result of the political elite’s decision to change and their calculation to retain legitimacy, not a “precondition” of social and economic factors. In the second level of analysis, institutionalism theorists focus on various constitutional choices and institutional designs including different forms of government, election systems, party systems, and the like. Democracy at this level transforms from abstract ideas to real “procedures” or “methods” to produce an “elected” and “representative” government. However, “painstaking design did not ensure good performance”⁶. As an interesting saying goes, “it is easier to build a road

⁶ R. Putnam (1993), *Making Democracy Work: Civic Tradition in Modern Italy*. (Princeton, NJ: Princeton University Press), p.10.

than to build an organization to maintain the road”.⁷ Many researches on this level have shown that institutions in a nascent democracy are the product of politics and power struggles, not the result of rational calculations about the establishment of an efficient government and fair rules of game. Moreover, institutions can often be manipulated by public policy made by incumbent in order to keep their inherent advantages. The discussion in the third and fourth level emphasizes socio-cultural factors in explaining the performance of democratic institutions. More recently, social scientists have looked to political culture in their explanation of cross-national variations in the political system. They study civic culture and seek to explain differences in democratic governance in various countries through an examination of political attitudes and orientations grouped under the rubric of civic culture.

In this chapter, the researcher will try to review and scrutinise the arguments of major democracy theories according to the four-level analytical framework illustrated above. In the first section, three approaches to the reasons and processes of democratization will be discussed: modernization theorists consider democratization is the result of certain degree of economic development; transition theorists consider democracy to be produced by the initiatives of human beings – especially political elites including incumbent and opposition leaders; and structure theorists combine both of the previous perspectives and argue that democratization is the result of interaction between social structure and political actors. In the second section, the origin and characters of various democratic institutions will be discussed. The researcher will compare three major Western democracies (the Presidential, Westminster and Consensus models) and their problems (i.e. executive–legislative deadlock, electoral dis-proportionality) of actual performance. The discussion in this

⁷ Arturo Israel (1987), *Institutional Development: Incentives to Performance* (Baltimore: John Hopkins University Press, 1987).

section will remind people that the constitutional choices of democratic institutions are sometimes the result of dynamic political struggles, not the sophisticated consideration of electoral justice or an efficient form of government. In the third section of this chapter, the researcher will endeavour to clarify the nature and elements of a civil society (generally believed to be the most important foundation of a liberal democracy). A vigorous and active social group or association, reciprocal social network and citizens with “good” qualities and pro-democratic attitudes (i.e. rational-critical discourse; tolerance of minorities) are key elements of the modern democratic society and very influential for further democratic development. In the fourth section, the discussion considers whether the traditional Chinese social culture, especially the Confucian way of thinking is an obstacles to modern democratic development. The discussion will reveal that the family unit is the most significant character of Chinese society which provides a reciprocal network not unlike civil society and even a bulwark against the power of state; however, some theorists view this negatively and consider strong families which emphasize the virtues of harmony and concession are actually incompatible with core ideas of modern democracy: institutions are built upon the clear competition and participation of strong individuals. In the final section, the researcher will try to apply the arguments discussed in the previous four sections to the case of Taiwan and describe the uniqueness of Taiwan’s democratic development process. The researcher will then attempt to arrange new theoretical findings from the case of Taiwan and establish a theoretical model according to the four-level analytical framework in order to have a clear and systematic historical explanation (Chapters 5 and 6) and tendency prediction (Chapter 7 and 8). The final chapter will be the conclusion and the major task of this theoretical chapter.

3.1 Three approaches to the analysis of democratization

Three theories of thinking on regime change – known as the modernization, transition and structural approach – are useful to understand how democratization occurs. The modernization approach emphasizes a number of social and economic requisites, either associated with existing liberal democracies, or necessary for successful democratization. The transition approach emphasizes political process and elite initiatives and choices that account for moves from authoritarian rule to liberal democracy. The structural approach emphasizes changing structures of power favourable to democratization.⁸ Some scholars classify the three approaches into the functionalist and the genetic school, or respectively macro and micro-oriented dimensions analysis. The functionalist school, which includes the modernization and structural approaches, gives paramount attention to structural or environmental-notably (the structural approach), economic and social determinants of political system change; and views regime change as preconditioned by particular conditions like economic development or cultural patterns (bottom -up). The genetic school, similar with transition theories, usually gives priority to conjectural and volitional variables and especially political determinants of regime change, and therefore emphasizes the importance of political choice and strategy by actors during the transition process (top-down).⁹

Modernization and democratization are related to four factors: industrialization, urbanization, increased income, and education. Industrialization develops the market

⁸ D. Potter, D. Goldblatt, M., Kiloh, and P. Lewis, (1997) (ed.), *Democratization*. (Cambridge: Polity Press), p. 10.

⁹ Geoffrey Pridham and Tatu Vanhanen (1994) (ed.), *Democratization in Eastern Europe, Domestic and International Perspective*, London and New York, p.16.

and media. This is the complex of skills and resources, which characterize the diverse, complex and interrelated economy (market) which requires greater interpersonal trust, life competence and plural sources of information. Increased income makes the various social strata from upper class to working class more receptive to democratic political tolerance norms in order to keep the wealth and help people to have more power to negotiate and so be able to have greater political participation (no representation, no taxation).¹⁰ Urbanization changes the shape of the stratification structure so that it shifts from an “elongated pyramid” with a large lower-class base (homogeneous and isolated community) to a “diamond” with a growing middle class (cosmopolitan) which has a mitigating role in moderating conflict and is able to reward moderate and democratic parties and penalize extremist groups.¹¹ Education enables people to broaden their outlook, helps them to understand the need for norms of tolerance, restrains them from adhering to extremists and monolithic doctrines, increases their capacity to make rational electoral choices and to participate in voluntary groups. Seymour Martin Lipset, the guru of modernization theories, had provided a famous saying to explain the relationship between economic development and democratic stability: “The more well-to-do a nation, the greater the chances that it will sustain democracy.”¹²

Modernization analysis is plausible on the basis of quantitative evidence. For example, Using GNP as an explanatory variable is a useful method to understand the economics condition in different levels of democratic development. The data of the 1976 GNP provide persuasive evidence that there was obviously a “political transition

¹⁰ Anna Clark, and Sarah Richardson (1999), *History of Suffrage 1760-1867* (ed.), 6 Vols. (London: Pickering & Chatto Publishers).

¹¹ Seymour Martin Lipset (1959), ‘Some Social Requisites of Democracy: Economic Development and Political Legitimacy’, *American Political Science Review*, Vol. 53, No. 1 (March, 1959), p.96.

¹² Seymour Martin Lipset (1960), *Political Man*, (London, Heinemann, 1976), p.31.

zone”: 27 out of 31 countries which liberalized or democratized from 1974–1989 were in the middle income range, per capita GNPs between \$1,000 and \$3000; neither poor and nor wealthy.¹³ Another empirical research conducted from 1950 to 1990 of 135 countries also showed the economic development and performance to have a very strong effect on the probability that democracy will survive. The probability of democratic demise is lower and expected life is longer in the countries with higher annual per-capita income. Where there is an annual per-capita income above \$6,000, democracies are impregnable and can be expected to live forever; Inflation also threatens democratic stability. A democratic regime has a 2.3 per cent chance of dying and a life expectancy of 44 years when the annual inflation rate is under 6 percent; a 1.4 per cent chance of dying and a life expectancy of 71 years when the annual inflation rate is between 6 and 30 percent; and a 6.4 per cent chance of dying and a life expectancy of 16 years when the annual inflation rate is above 30 percent. The moderate of inflation promotes democratic stability.¹⁴

Modernization theories face two major criticism: First, despite that the quantitative index makes the modernization theories more plausible while explaining the relation between democracy and economic development, the proposition, such as “no telephone, no democracy” or “more telephone, more democracy” seems only to point out the “universal” and “linear” correlations, not the “actual causal mechanisms”¹⁵ between modernization and democratization. The economic and social factors have significant impact on democratization but they are not determinative. Over the long term, economic development creates the basis for

¹³ Samuel Huntington (1991), *The Third Wave: Democratization in the Late Twentieth Century* (Norman: University of Oklahoma Press), p.59.

¹⁴ Adam Przeworski (1996) (ed.), “What Makes Democracies Endure?” *Journal of Democracy*, Vol. 7, No.1 (January 1996), pp. 40–41.

¹⁵ Ibid, Potter, D., Goldblatt, D., Kiloh, M. and Lewis, P. (1997)), p.12.

democratic regimes (such as in Western Europe), however, in the short term, the rapid economic growth and economic crisis may undermine authoritarian regimes and not necessarily lead them to introduce democracy¹⁶ (e.g. China's GNP has an annual growth of 10 per cent; in the period 1960-1975, Brazil's GNP grew by 8 per cent and Iran's GNP grew by 8 per cent). Modernization also fails explain the case of the oil producing countries – Saudi Arabia, Libya, Kuwait were undemocratic, although in 1976 they had per capita GNPS over \$4,000, ranking well among the wealthy countries. The implication is that broad-based economic development involving significant industrialization may contribute to democratization but wealth resulting from the sale of oil and other natural source does not.¹⁷

Second, the modernization approach receives criticism from transition theorists. The transition theorists say that modernization theories simplify the evolution of the historical political process of democratization. Historically what has driven these processes is the agency of political elites in conflict and their eventual conciliation.¹⁸ Democracy is produced by the initiatives of human beings, not “inexorable movement” on the “comparatively bland terrain of timeless social requisites”.¹⁹ Determinism is the major problem of functional analysis, and historical evidence shows that important political changes do not happen according to certain stages (i.e. Lenin and Mao initiated their communist revolution and never thought the proletariat were too small or that capitalism had not reached an advanced enough stage for a

¹⁶ Ibid, Samuel Huntington, (1991), p.72.

¹⁷ Ibid., p. 65.

¹⁸ Rustow remarked that “a people who are not in conflict about some rather fundamental matters would have little need to devise democracy's elaborate rules for conflicts resolution”; Danwart Rustow, (1970), “Transitions to Democracy: Toward a Dynamic Model”, *Comparative Politics* Vol.2 (April 1970), pp.337-363.

¹⁹ J. Higley, and M.G. Burton (1989), “The Elite Variable in Democratic Transition and Breakdowns”, *American Social Science Review* 54, No.1 (1989), p. 21.

revolution in Russian and China).²⁰ Lipset later also acknowledged that the theorist is only able to point out the probability, not the certainty of democratization.²¹

Transition theorists understand that democratization is a historical process of social conflicts. Rustow defines the route to democracy as having four main phases in all countries: national unity phase, preparatory phase, decision phase (first transition), and habituation phase (second transition). Democratization occurs when the vast majority start to share a political identity (the first phase), inconclusive political struggle eases, compromise is achieved, democratic rules are adapted, and political parties gain some share in the polity (the second–third phase). Democracy is firmly established after a new generation of elites become habituated to democratic rules and believe them (the fourth phase).²² The idea of the decision phase of transition has developed into the concept of “political pacts”, which are the means whereby different camps of political elites negotiate with each other and achieve a compromise of consensus on the rule of the game.²³ Huntington points out there are three types of government–opposition interaction provide three various paths to democratization.²⁴

²⁰ Myron Weiner (1987), “Empirical Democratic Theory and the Transition from Authoritarianism to Democracy”, *Political Science*, Vol. 20, No.4 (Autumn, 1987), p. 862.

²¹ Seymour Martin Lipset, Seong and Torres (1993), “A Comparative Analysis of the Social Requisites of Democracy”, *International Social Science Journal*, No. 136 (1993), p. 158.

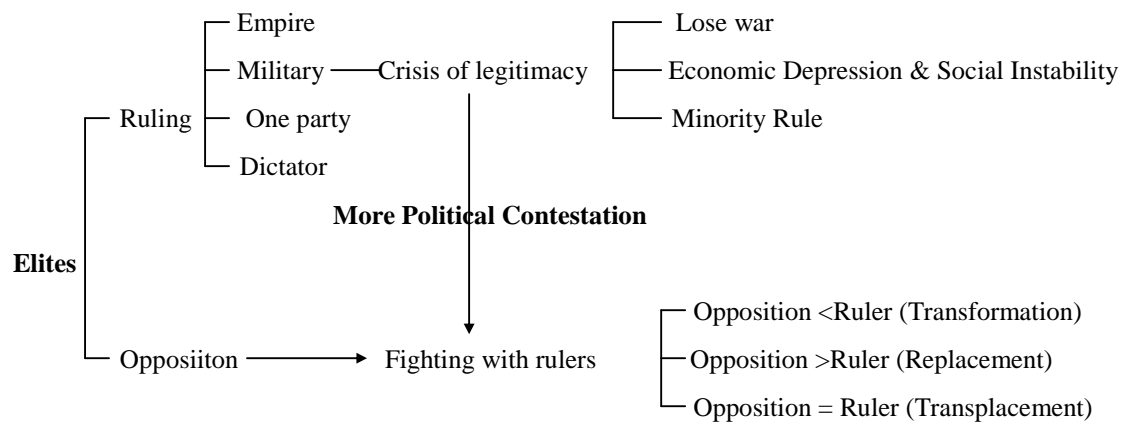
²² Ibid, Rustow, D. (1970), p. 362.

²³ G. O'Donnell, and P. Schmitter (1986), *Transition from Authoritarian Rule: Tentative Conclusions about Uncertain Democracies*, (Baltimore: The Johns Hopkins University Press, 1986), p. 37.

²⁴ Shain and Linz formulate there are four ideal types of interim government: incumbent- led caretaker, opposition–led provisional, power sharing interim, and international interim; The concept of incumbent-led is equal to “transformation”, opposition–led is equal to “replacement”, and power sharing interim is equivalent of the meaning to “transplacement”. Transformation, replacement, and transplacement are three major types of government–opposition interaction in Huntington’s description; Y. Shain and J.J. Linz, (1995) (ed.), *Between States: Interim Governments and Democratic Transitions*, (Cambridge: Cambridge University Press); Ibid, Huntington, Samuel (1991), pp. 121–124.

“Transformation” (incumbent-led caretaker government) occurs when the elites in power take the lead in bringing about democracy (opposition government): opposition groups take the lead in bringing about democracy, and the authoritarian regimes collapse or are overthrown. What might be termed “Transplacement” (power sharing interim government; opposition and government have equal power) occurs when democratization has resulted largely from joint action by government and opposition groups. Furthermore, each path is the result of deeper interactions between reformers (or soft liners) and standpatters (or hardliners) in the governing coalition, and between moderates and extremists in the opposition. The “transformation” occurs when reformers are stronger than the extremists in the opposition. Opposition moderates are often co-opted into the governing coalition while standpatter groups opposing democratization defect from it. In “replacement”, (opposition-led provisional government) the opposition eventually have to be stronger than the government and the democratic moderates have to be weaker than radical extremists. A succession of defection of groups often leads to the downfall of the regime and inauguration of democratic system. In “Transplacement”, the central interaction is between reformers in the governing coalition and moderates in the opposition, whose power is roughly equal, with each being able to dominate the antidemocratic groups on its side of line between the government and the opposition. In some transplacement, government and former opposition agree to at least a temporary sharing of power. Figure 3.2 explains that the legitimacy erosion of an authoritative incumbent is also an important impetus for democratization. Historically, religion, the divine right of kings, one-party ideology (nationalism or communism), temporary military vanguards, and personal charisma have provided the basis of legitimacy for non democratic rule. However,

Figure 3.2: The reasons for political elites to promote democratization



Source: Author's own compilation

with the growth of industrialization and challenges from Western power, the major difficulties for these non democratic regimes, no matter be they continental emperor, military regimes, one-party systems or personal dictatorships, are their out-of-fashion political systems and inefficient self-renewal mechanisms for solving the crises of legitimacy such as losing wars, depression, social failure or minority rule. Authoritarian leaders choose to adapt the election, but it is also probably a risk for them because it is likely they may never come back to power. The holding of an election is considered as a milestone or watershed in the transition from authoritarianism to democratization.²⁵

The major criticism to the transition approach comes from the structural approach. The basic premise of the structural approach to democratization is that particular inter-relationships of certain structures of power, economics, society and opportunities drive political elites and others along a historical trajectory leading

²⁵ Ibid, Samuel Huntington (1991), p. 48.

toward liberal democracy.²⁶ The structural theorists argue that although it is easy to say that democratization is brought about by the decisions of political elites, it is difficult to prove that such decisions are made without any calculation or concern for the environment and structure. There are many structures of power that constrain the behaviour and shape the thinking of individuals and elites in society. Structural influence always exists even if the actors are not aware of it.²⁷ Besides, the transition theorists had ignored the details and complexity of the behaviour and motives of political actors. So much of the decision making relevant to democratization takes place behind closed doors and it is very difficult for a researcher to ascertain if the decision of individual actors is the outcome of a rational calculation or just a feeling or passion.²⁸ In most cases, democracy is preferable to the opposition, the authoritarian regime generally do not like the coming of democracy. An authoritarian breakdown will not happen just because of a lack of legitimacy. What matters for the stability of any regime is not its legitimacy, but rather the presence or absence of preferable alternatives.²⁹

The structuralist perspective is useful in both analysing the interplay between the condition and the choice made by political elites. The logic, which connects the various factors, is capable of interpreting the interactions between structures and actors to explain the dynamics of democratization.³⁰ It accounts for the general

²⁶ Ibid, D. Potter, D. Goldblatt, M. Kiloh, and Lewis, P. (1997), p. 18.

²⁷ Ibid, J. Higley, and M. G. Burton, (1989), p. 28.

²⁸ Nancy Bermeo (1990), "Rethinking Regime Change", *Comparative Politics*, Vol. 22, No. 3 (April, 1990), p. 368.

²⁹ Przeworski Adam (1986), "Problems in the Study of the Transition to Democracy" in O'Donnell, G., Schmitter P.C. and Whitehead, L.(1986) (ed.) *Transitions from Authoritarian Rule* (Baltimore: The Johns Hopkins University Press), pp. 51–52.

³⁰ Karl Terry Lynn and Philippe C. Schmitter (1991), "Modes of Transition in Latin American, Southern and Eastern Europe", *International Social Science Journal*, No.128 (1991), pp.269–284.

“cause” (condition) and the “timing” of regime transition or breakdown (actor) and assumes that even though actors may have their own interests and motives, their choices can only represent calculations depending upon given structural constraints.³¹ A modified structural approach, in Karl and Schmitter’s term, a “path-independent approach”, is introduced having developed the logic of analysing. The structural approach compares the historical transformation not in terms of pattern variables (modernization approach or elite initiatives – transition approach), but in terms of changed inter-relationships between changing structures of power. Barrington Moore mentions that changing relationships are between four structures: state, lord, urban bourgeoisie and peasants, and later in Dietrich Rueschemeyer’s analysis, there are five classes singled out: large landlords, urban working class, urban bourgeoisie, salaried and professional middle class, and peasant. Both Moore and Rueschemeyer consider democratization to be a process of class struggle between the dominant and subordinate classes to put democracy on the historical agenda and decide its prospects.³² After examining the historical transformation between the seventeenth and twentieth centuries when agrarian societies were changing to modern industrial ones, England, France and the United States moved towards the political form of liberal democracy, Japan and Germany moved toward fascism, Russia and China moved towards communist revolution, Moore concludes that liberal democracy happens when there is a development of a balance to avoid a strong state, a weakening of the landed aristocracy, a vigorous bourgeoisie with its own economic base emerging in opposition to the state – eventually becoming the dominant class in society. Moreover,

³¹ Kitschelt Herbert (1993), “Comparative Historical Research and Rational Choice Theory: The Case of Transitions to Democracy”, *Theory and Society*, No. 22 , p. 424.

³² Barrington Moore (1996), *Social Origins of Dictatorship and Democracy: Lord and Peasant in the Making of Modern World*, (Boston: Beacon Press); D. Rueschemeyer, E. H. Stephens and J.D. Stephens, (1992) *Capitalist Development and Democracy* (University of Chicago Press).

the landed upper class turned increasingly towards commercial agriculture while setting the peasants free and the peasantry were gradually transformed by the commercialization of agriculture and eventually eliminated as a political factor of consequence. Communist revolution (Russia and China) occurred in conditions where the urban bourgeoisie was weak and dominated by the state, the link between the landlord and the peasantry was weak, the landlords failed to commercialize agriculture, so the peasantry were cohesive and found allies with organization skills. Rueschemeyer argues similarly with Moore that democratization has more chance of success in the middle ground between not enough and too much state power, when landlords are weak (landlords as a class have historically been the most anti-democratic force and perceived democracy as incompatible with their interests because it makes their labour more expensive). Rueschemeyer considers that the urban working class has historically been an important force for pushing for extension of suffrage, union rights and other aspects of democratic advances. Capitalist industrialization can strengthen the working class and weaken the landed class, such developments being structurally favourable to the development of democracy. Rueschemeyer found the bourgeoisie to have a different role. They have not been as anti-democratic as large landlords, but neither have they been known to press for liberal democracy. Indeed, there are plenty of cases where the bourgeoisie have supported the crushing of democracy. Their role has varied a lot depending on the alignment of other classes, the position and power of the state, and transnational forces.

3.2 Constitutional choice and its political consequence

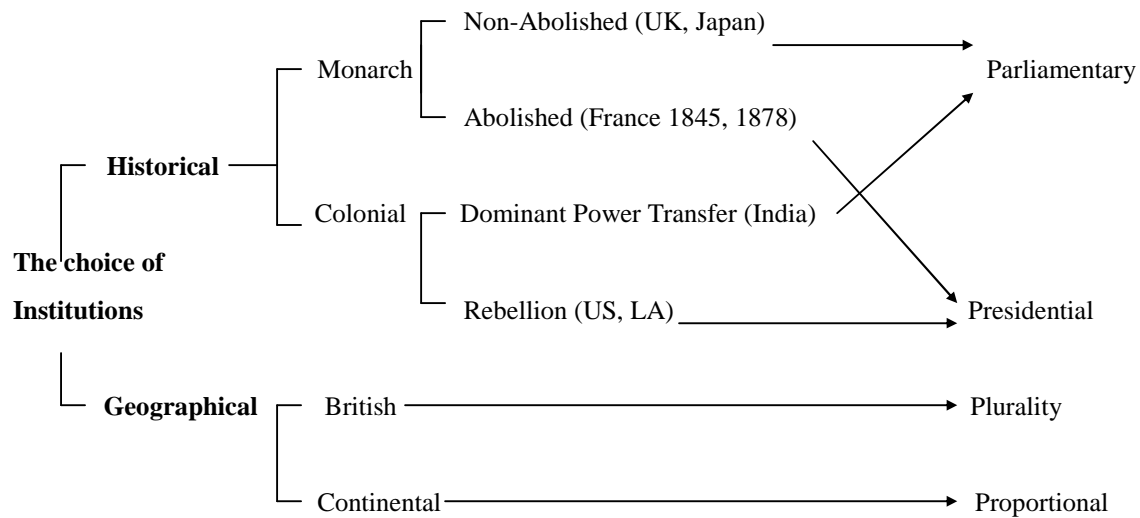
A viable representative government depends on the proper arrangement of its formal parts, structures and reasonable institutional affairs. Schumpeter defines the democratic political system as a “method” of “institutional arrangement for arriving at political decisions in which individuals acquire the power to decide by means of a competitive struggle for the people’s vote”.³³ Democracy is a procedure consisting of two dimensions – contestation and participation – which provides a number of benchmarks – grouped largely along Dahl’s lines – as critical to Schumpeter’s realistic democracy to Polyarchy. Huntington argues that the popular election of the top decision makers is the essence of democracy.³⁴ The critical point in the process of democratization is the replacement of a government that is selected in a free, open, and fair election.³⁵ Political elites who wish to establish electoral rules to achieve their objectives may be constrained by the historical development of their geographical region. Figure 3.3 explains the historical and geographical contributions to institutional choices. There is a historical and geographical dividing line between those countries using the parliamentary or presidential plurality system and those using the proportional system. Historically, countries that had monarchies but experienced no revolution transferred governmental responsibility from crown to parliament, ending up with parliamentary systems. Countries in which monarchy was abolished (France in 1848 and again in 1875, Germany in 1919) and colonies that rebelled against monarchical powers (the United States and Latin America in the late

³³ Joseph Schumpeter (1975) , *Capitalism, Socialism, and Democracy* (New York: Harper).

³⁴ Robert A. Dahl, (1971), *Polyarchy: Participation and Opposition* (New Haven and London: Yale University Press).

³⁵ Ibid, Samuel Huntington (1991), p. 9.

Figure 3.3: Historical and geographical contributions to constitutional choice



Source: Author's own compilation

eighteenth and early nineteenth centuries) replaced monarchs with presidents. Countries that emerged from colonial domination after the Second World War typically inherited parliamentarism from the colonizers. Characteristically, however, these same countries instituted presidential systems if and when the initial democracy fell. Democratizing dictatorships tended to retain presidentialism.³⁶ Geographically, for it is only in countries, which have come under British political influence – Commonwealth countries, the United States and British herself –, the plurality system is still used for election of legislature. Every continental democracy except France used a proportional system.³⁷ Golder points out that there is a tendency shown that absolute majority rule has replaced plurality rule as the predominant electoral system for presidential election in the 1990s and proportional systems have become more

³⁶ Adam Przeworski, (1996) , “What Makes Democracies Endure?” *Journal of Democracy*, Vol. 7, No.1 (January 1996), p. 46.

³⁷ Vernon Bogdanor and David Butler (1983) (ed.) *Democracy and Elections: Electoral Systems and their Political Consequence* (New York: Cambridge University Press), p.7.

complex due to an increasing use of multiple tiers and mixed electoral formulas. A total of 60.5 per cent of presidential elections in 1990s used the absolute majority system compared to just 6.1 per cent in the 1950s. The adoption of absolute majority rule by most new democracies in Eastern Europe helps to explain this dramatic change, and most countries in Africa have also adopted the absolute majority rule following the reemergence of multi-party elections in the 1990s. The desire to avoid electing presidents who lack a strong popular endorsement may explain the worldwide preference for majority requirements but does not help us understand why they suddenly became so popular in the 1990s.³⁸

There are four possible combinations of democracy types (as can be seen from Figure 3.3) if we take into account parliamentary, presidential, plurality and proportional representative (PR) factor. The purest examples of the combination of presidentialism and plurality are the United States and democracies heavily influenced by the United States (especially some East Asian democracies, including South Korea, Taiwan and Philippines). Latin American countries have overwhelmingly opted for presidential–PR systems. Parliamentary–Plurality systems exist in the United Kingdom and many former British colonies (India, Malaysia) and the countries of the so called Old Commonwealth (Canada, Australia, and New Zealand). Parliamentary–PR systems are concentrated in Western Europe. Arend Lijphart clarifies the two parliamentary systems and defines them separately as “Westminster” and “Consensus” models.³⁹ Presidential, Westminster and Consensus models are three major types of Western democracies. While examining their electoral

³⁸ M. Golder, (2005), “Democratic Electoral Systems around the World, 1946–2000”, *Electoral Studies*, Vol. 24, No. 1, pp.103–121.

³⁹ Arend Lijphart (1984), *Patterns of Democracy: Government Forms and Performance in Thirty-Six Countries* (New Haven, CT: Yale University Press).

consequences, executive efficiency, executive–legislative relations, and party politics, each system has different democratic performance (fair participation, professionalism, flexibility, accountability and stability). In Table 3.1, from a perspective of electoral consequences, the majority or plurality method in the presidential and Westminster models cause a two-party system ⁴⁰ offering the voters a clear choice between two alternative sets of public choice, and has a moderating influence because the two main parties have to compete for the swing voters in the centre of the political spectrum and hence have to advocate moderate centralist policies.⁴¹ The Consensus model tends to create a multiparty system because of PR effects, which is not good for moderate centralist politics if political parties are polarized, but advantageous to more political participation and fair representation (Evaluation 1: $P = M < C$). Moreover, the need for parties to find allies to organize a coalition encourages power fragmentation and an unstable government, especially when no majority coalition can be formed (Evaluation 2: $P = M < C$). Presidential and majoritarian models share problems of disproportionality more serious than those of the Consensus model: the winner is almost certain to benefit (the winner gains an absolute majority with fewer seats; i.e. winner gain 38.3 per cent of the vote, but win 53.2 per cent of the seats) since those votes supporting losing candidates are effectively wasted. Douglas W. Rae emphasizes that all electoral systems tend to over-represent the larger parties and under-represent the smaller ones because all electoral systems tend to yield disproportionality, reducing the effective number of parliamentary parties compared with the effective number of electoral parties, and manufacturing a parliamentary

⁴⁰ Maurice Duverger, (1954), *Political Parties: Their Organization and Activity in the Modern State*, Translated by Barbara and Robert (North London, Methuen), p. 217.

⁴¹ Ibid, Arend Lijphart (1984), p. 63.

Table 3.1: Democratic Performance of Presidential, Westminster and Consensus Models

	Presidential model (US)	Westminster model (UK)	Consensus model (Switzerland)	Democratic performance	Evaluation P: Presidential model W: Westminster model C: Consensus model
Electoral consequence	First past the post (Plurality)		PR	Fair Participation	(1) $P = W < C$
Party politics	One party dominance & Two party alternation		Coalition and multi-party System	Stability	(2) $P = W > C$
Executive Effectiveness	Cabinet incompatibility (separation of powers)	Parliament: compatibility (fusion of powers)		Professional	(3) $P > W = C$
Executive legislative relations				Flexibility	(4) $P < W = C$
				Accountability	(5) $P < W = C$
	Fixed terms	Non-fixed terms			

Source: Author's own compilation

majority for parties that have not received a majority from the voters⁴². Duverger explains the effects in terms of “mechanical” and “psychological” factors. The mechanical effect of the plurality rule is that all but the two strongest parties are severely under-represented because these parties tend to lose in each district; the

⁴² Rae, Douglas W. (1967), *The Political Consequences of Electoral Laws* (New Haven: Yale University Press), pp.67-129.

British Liberals, continually the disadvantaged third party in the post-war era, are a good example. The psychological factor reinforces the mechanical one, “the electorates soon realize that their votes are wasted if they continue to give them to the third party”. Whence comes their natural tendency to transfer their vote to the less evil of its two adversaries. In addition, the psychological factor operates at the level of the politician, whose natural tendency is not to waste his/her energy by running as third party candidates but is instead to join one of the large parties.⁴³

On the other hand, in view of government capability and executive–legislative relations, the presidential model is more professional (Evaluation 3: $P > M = C$), but not as flexible (Evaluation 4: $P < M = C$) or accountable (Evaluation 5: $P < M = C$) than the other two models. In the Presidential system, the constitutional principle of executive and legislative relations is a separation of powers and incompatibility of cabinet membership. The president invites professionals (other than senators or representatives) to organize the cabinet, and those who are invited always perform more professionally than members of parliament who are more reliant on civil servants’ support.

However, the executive–legislative paralysis happens easily in the Presidential system when the president’s party does not hold a majority of seats in both chambers of congress, and the legislature is controlled by a majority that is hostile to the president but not large enough to override presidential vetoes routinely. Moreover, the executive, by virtue of the fixed term of office, can survive alongside hostile legislatures, leading to stalemates between the executive and the legislative branch.⁴⁴ These regimes lack a constitutional principle that can be invoked to resolve conflicts between executives and legislatures, such as the vote of no confidence of

⁴³ Ibid, Maurice Duverger, (1954), p.226

⁴⁴ J.J.Linz (1978), “The Perils of Presidentialism” , *Journal of Democracy* (Winter 1990), pp.51–69.

parliamentary regimes. Minority presidents and deadlock provide incentives for actors to search for extra-constitutional means of resolving their differences, thus making a presidential regime prone to instability and eventual death.

Nevertheless, some observation shows that the traditional worry about the institutional problems (unfair participation in a plurality or majority electoral system, executive–legislative paralysis in the presidential system, and instability in a multiparty system) caused by shortness of different constitutional principles might sometimes be intuitive and thus oversimplify the operation of real politics without looking for the rational action of political actors⁴⁵ and other institutional factors. For example, in the case of the United States, Cheibub argues that the probability of a minority government is intertwined with the number of legislatures and the electoral cycle: the probability (close to 60 per cent) is higher than that in a unicameral system (36.46 per cent), and almost half of the years in a unicameral system were years of minority presidents; the timing of presidential and congressional election also affects the likelihood of a minority government in presidential regimes. The likelihood of a minority government will be higher than when presidential and congressional elections do not coincide.⁴⁶ What may sometimes matter for the functioning of a presidential regime is whether the president does or does not have enough seats to impose his or her own policy agenda. Mayhew’s systematic analysis of “significant laws” passed in the post war era finds no evidence that a divided government is any less productive than a unified government. He presents evidence that partisan control of a government does not have a significant negative effect on the formation of “innovative policy” and this innovative policy is more directly linked to the “timing

⁴⁵ Strom Kaare (1990), *Minority Government and Majority Rule* (UK: Cambridge University Press).

⁴⁶ Jose Antonio Cheibub, (2002), “Minority Governments, Deadlock Situations, and the Survival of Presidential Democracies”, *Comparative Political Studies*, Vol. 35, No.3 (April 2002), pp. 294–296.

of legislation” (enacted in the first two years of a presidential term), the “public mood” (innovative policy is more likely to emerge when there is a public demand for a activist government) and budget (innovative policies will be easier to pass when the budgetary pie is larger). “Unified versus divided control has probably not made a notable difference during the post-war era” in the United States.⁴⁷ Cameron, Howell, Adler, and Riemann find that a divided government reduces the enactment of “landmark” legislation, but increases the enactment of less significant legislation.⁴⁸ Krehbiel, Bradly and Volden argue that in the American case, super-majoritarian models focusing on the senate filibuster and the veto are more appropriate to the study of gridlock than the majoritarian model.⁴⁹ In the senate, a minority of members can prevent final action on a bill by filibustering (or credibly threatening to do so), and thereby prevent enactment. Ending a filibuster requires the support of three-fifths of the senate, or 60 out of 100 votes. In Congress, bills preferred by opposition are passed, the president vetoes these bills, but the opposition should have 75 per cent of the votes to override the presidential veto, otherwise, there is stalemate. Therefore, a unified government in which the president has the less than three-fifths support from the senate, and opposition has less than three-quarters support, could be just as prone to gridlock as a divided government. The traditional view is that party discipline is supposed to lower in a presidential system where there are more incentives for a

⁴⁷ David R. Mayhew (1991), *Divided We Govern: Party Control, Lawmaking, and Investigation, 1946-1990* (New Haven, CT: Yale University Press, 1991), p. 179; Sean, Q. Kelly, (1973), “Divided We Govern? A Reassessment.” *Polity* 25 (Spring 1993), p.476.

⁴⁸ Charles Cameron, Willam Howell, Scott Adler, and Charles Riemann (2000), “Divided Government and the Legislative Productivity of Congress, 1945–1994” *Legislative Studies Quarterly*, Vol.25,No.2, pp. 285–312.

⁴⁹ Keith Krehbiel, (1998), *Pivotal Politics* (Chicago :University of Chicago Press, 1998); David Brady, and Volden Craig (1998), *Revolving Gridlock: Politics and Policy from Carter to Clinton* (Boulder, CO: Westview Press).

candidate to cultivate the “personal vote” because the mechanisms that supposedly produce highly disciplined parties in a parliamentary system are, by definition, absent in a presidential regime: party discipline is higher in a parliamentary system because individual members of parliament have strong incentives to comply with their parties to avoid bringing the government down and the threat of an early election is sufficient to induce party discipline.⁵⁰ However, these characteristics on the contrary reduce the possibility of confrontation between Republicans and Democrats, which is useful to dissolve executive–legislative stalemates. In the United States, party preference can in some cases be highly polarized, and in other cases have a considerable degree of overlap. When party polarization is low, Democrats are not uniformly opposed to Republican proposals, and Republicans are not uniformly opposed to Democratic proposals. Higher party polarization increases gridlock, but the magnitude of the increase diminishes to the extent that a party is close to having enough seats to thwart filibusters and vetoes. In other words, a unified government is just as prone to gridlock as a divided government when parties are highly polarized and neither party has a majority. Conversely, a divided government is just as productive as a unified government when party polarization is low or when one party has a veto-proof, filibuster-proof majority.⁵¹

⁵⁰ J. J. Linz, “Presidential or Parliamentary Democracy: Does It Make a Difference?” in J. J. Linz and Arturo Valenzuela (ed.), *The Failure of Presidential Democracy: The Cause of Latin American* (Baltimore: Johns Hopkins University Press), pp. 3–87.

⁵¹ David R. Jones (2001), “Party Polarization and Legislative Gridlock”, *Political Research Quarterly*, Vol. 54, No. 1, pp.127–128.

3.3 Civil Society

In Chapter 3.1, the argument is discussed that democratization can be considered to be the result of a changed inter-relationship between different levels of social structures. In Western democratic development experience, it is widely believed the occurrence of democratization is related to the emergence of a civil society and culture: a spontaneously created social structure separate from the state and consisting of a lifestyle full of active social activities, a trust reciprocal network (social capital) and good qualities and pro-democracy attitudes of its citizen. As Fukuyama describes, “civil society takes shape even more slowly than political institutions. They are less able to be manipulated by public policy, and indeed often bear an inverse relationship to state power, growing stronger as the state recedes and vice versa.”⁵²

Historically, the problem of political despotism and how to break its grip or prevent its growth played a decisive part in the late eighteenth and early nineteenth century intellectual unrest which resulted in the overthrow and modernization of the classical concept of civil society.⁵³ For example, according to Paine’s argument, the power of the state must be restricted in favour of civil society because within all individuals there is a “self-regulating society” existing before the formation of the state, this natural sociability predisposes individuals to establish peaceful and happy relations of competition and solidarity based only on reciprocal self-interest and a shared sense of mutual aid. The state in the pre-modern and uncivilized world is over-governed, patriarchal, excessively taxed, bellicose, and dependent on the whims

⁵² Francis Fukuyama (1995), “Confucianism and Democracy”, *Journal of Democracy*, Vol. 6, No. 2, p. 20.

⁵³ J. Keane, (1988), “Despotism and Democracy.” In J. Keane (ed.), *Civil Society and the State* (London: Verso), p. 65.

and fancies of political despots and their appointers. Paine emphasizes that the power of states is only ever delegated by actively consenting individuals who can legitimately retrieve this power at any time by withdrawing their consent. Civilized governments are constitutional governments empowered by the active consent of naturally free and equal citizens. This kind of government has no rights, but only duties before their citizens. Individuals are permanently sovereign. Any reversal of this natural order and every attempt to preclude actively represented consent as the basis of law, is despotism. A confident, self-regulating society requires only a minimum of political mechanism to ensure the natural interaction of the various parts of civil society upon each other. In contrast to the labyrinthine, spendthrift, secretive and bellicose operations of despotic states, the limited constitutional state would be qualitatively more simple and efficient, cheaper, and more open and peaceful.⁵⁴

A healthy and mature civil society is considered as advantageous to the maintenance of democracy when there are a group of voluntary organizations, abundant social capital, rational civic virtue, and the protection of minority rights. Traditional civil society theorists believe that when citizens start to interact often and join groups, organizations expand citizens' access to information and political ideas, which increases government accountability.⁵⁵ Following a study of American government and society, Tocqueville argued that a new type of state despotism is popularly elected in the name of the sovereignty of people. Political checks upon this new despotism must be reinforced by the growth and development of a civil association which lies beyond the control of state institution. There is an independent

⁵⁴ Thomas Paine (1984), *Rights of Man*, with an introduction by Eric Foner, notes by Henry Collins, (Harmondsworth: Penguin Books).

⁵⁵ Pamela Paxton (2002), "Social Capital and Democracy: An Interdependent Relationship." *American Sociological Review*, Vol. 67, No. 2, p. 254.

eye of society: an eye comprising a plurality of interacting, self organized and constantly vigilant civil association which is necessary for consolidating the democratic revolution. “Nothing would be hidden from the eyes of civil society”. A state power without these social obstacles is always hazardous and undesirable, a licence for despotism.⁵⁶ In fact, in some of the recent social research, theorists found that voluntary associations provide a training ground for the new political leader; help members to practice compromise and learn tolerance; and stimulate individual participation in politics. Moreover, associations help disseminate information about protest activities and aid in the growth of opposition social movements.⁵⁷ Finifter finds that friendship groups provide a protective space in the workplace for dissident political opinions.⁵⁸ Morris argues that trusting associations can both form early opposition movements and support.⁵⁹ Current research finds that the formation of nongovernmental organizations (NGOs) will help foster and maintain stable democracies. The proportion of total aid from government to NGOs becomes an important reference to understand the development of voluntary groups in certain countries.

After measuring the government performance in Italy, Putnam finds that voluntary cooperation is easier in a community that has inherited a substantial stock of social capital in the form of norms of reciprocity and civic engagement. Social capital here refers to features of social organization, such as trust, norms and networks

⁵⁶ Alexis Tocquevill (1946), *Democracy in America* (London: Oxford University Press).

⁵⁷ Ibid, Pamela Paxton (2002), p. 257.

⁵⁸ Ada, W. Finifter (1974), “The Friendship Group as a Protective Environment for Political Deviants”, *American Political Science Review* 68, pp.607–625.

⁵⁹ Morris Aldon D.(1981), “Black Southern Student Sit-In Movement: An Analysis of International Organization”, *American Sociological Review* 46, pp. 744–767.

that can improve the efficiency of society by facilitating coordinated actions.⁶⁰ Norms of generalized reciprocity and networks of civil engagement encourage social trust and cooperation because they reduce incentives to defect, reduce uncertainty, and provide models for future cooperation.⁶¹ The argument is similar to Paine's assumption: natural society is self-regulating such that individuals are naturally disposed to co-operative forms of social life – individuals' natural wants exceed their individual powers. This means that they are incapable of activating their powers and satisfying their diverse wants without the labours and assistance of others. Consequently, they are driven to establish forms of commercial exchange based on reciprocal interest and the division of labour.⁶² That these “ vertical ” networks are less helpful than horizontal networks in solving dilemmas of collective action may be one reason why, in the eighteenth century, capitalism turned out to be more efficient than feudalism, and why democracy has proven more effective than autocracy in the twentieth century.⁶³ Patron–client relations, for example, involve interpersonal exchange and reciprocal obligations, but the exchange is vertical and the obligations asymmetric. In the vertical patron–client relationship, characterised by dependence instead of mutuality, opportunism is more likely on the part of both patron (exploitation) and client (shirk).⁶⁴ Douglass North provided a good example to explain this point by tracing the post-colonial experience of North and South America to their respective colonial legacies. After independence, both the United States and the Latin Republics shared constitutional forms, abundant resources, and similar

⁶⁰ R. Putnam (1993), *Making Democracy Work: Civic Tradition in Modern Italy*. (Princeton, NJ: Princeton University Press), p. 167.

⁶¹ Ibid, p. 177.

⁶² Ibid, J. Keane, (1988), p.48.

⁶³ Ibid, R. Putnam (1993), p.175.

⁶⁴ Ibid., p. 178.

international opportunities; but North Americans benefited from their decentralised, parliamentary English patrimony, whereas the Latin Americans were cursed with centralised authoritarianism, familism, and clientelism inherited from late medieval Spain. The North Americans inherited civic traditions, whereas the Latin Americans were bequeathed traditions of vertical dependence and exploitation. The point is not that the preference or predilections of individual North and South Americans differed, but that historically derived social contexts presented them with a different set of opportunities and incentives.⁶⁵

Civic virtues or what is called “public spiritedness” is considered an important standard to evaluate the quality of democratic life. Public spiritedness includes the ability to question authority, evaluate the performance of those in office, and the willingness to engage in public discourse.⁶⁶ A rational–critical discourse or conversation provides a space for the creation of criticism of the present regime and the dissemination of a potential source of opinions that may differ from prevailing state ideology.⁶⁷ Public spiritedness also includes the willingness to listen seriously to a range of views which, given the diversity of liberal societies, some listeners are bound to find strange and even obnoxious.⁶⁸ Liberal citizens must give reasons for their political demands, not just state preference or make threats.⁶⁹ These are the most distinctive aspects of citizenship in a liberal democracy, since they are precisely what

⁶⁵ Douglass C. North (1990), *Institutions, Institutional Change and Economic Performance* (New York: Cambridge University Press), p.58.

⁶⁶ Will Kymlicka (2001), *Politics in the Vernacular: Nationalism, Multiculturalism and Citizenship* (Oxford: Oxford University Press, 2001), p.296.

⁶⁷ Ibid, Pamela Paxton (2002), p.257.

⁶⁸ William Gaston (1991), *Liberal Purpose: Goods, Virtues, and Duties in the Liberal State* (Cambridge University Press, Cambridge).

⁶⁹ Mecedo Stephen (1990), *Liberal Virtues: Citizenship, Virtue and Community* (Cambridge University Press, Cambridge).

distinguish “citizens” within democracy from “subjects” of an authoritarian regime.⁷⁰ One’s position on minority rights is dependent on one’s assumption on the liberal–communitarian debate: if one is a liberal who cherishes individual autonomy, then one will oppose minority rights as an unnecessary and dangerous departure from the proper emphasis on the individual; communitarians, by contrast, view minority rights as an appropriate way of protecting communities from the eroding effects of individual autonomy, and of affirming the value of community.⁷¹ Ethno-cultural minorities in particular are worth of such protection. Civic nations, in contrast with illiberal ethnic nations, are neutral with respect to the ethno-cultural identities of their citizens, and define national membership purely in terms of adherence to certain principles of justice.⁷² However, when considering actual policies that occur through democratization, the norm of ethno-cultural neutrality is manifestly not the fact but is replaced by deliberate policies which are designed for the purpose of national building. National building is a process of promoting a common language and a sense of common membership in, and equal access to, the social institutions based on that language. Decisions regarding official language, core curriculum in education, and the requirement for acquiring citizenship, have all become the intention of diffusing a particular culture throughout society, and of promoting a particular national identity based on participation in the societal culture.⁷³ For example, even in the United States, many policies are made to ensure that “anglophones” would be a majority within each of the 50 states of the American federation: it is a legal requirement for children to

⁷⁰ Gabriel A. Almond, and Sidney Verba (1989), *The Civic Culture, Political Attitudes and Democracy in Five Nations* (Newbury Park: Sage Publications).

⁷¹ Ibid, Will Kymlicka (2001), *Politics in the Vernacular: Nationalism, Multiculturalism and Citizenship* (Oxford: Oxford University Press, 2001), p. 19.

⁷² Ibid., p. 24.

⁷³ Ibid., p. 24–27.

learn the English language in schools, for immigrants to learn English to acquire American citizenship; for employment (in government or elsewhere) those applicants must speak English.⁷⁴ National building is in obvious conflict with the respect and protection of minority rights but very popular in the nascent democratic countries and very confusing in the name of democratic development.

3.4 Is Confucian society anti-democratic?

The theoretical criticism by S.P Huntington and political support from some Asian authoritarian regimes, especially Singapore previous Prime Minister Lee Kuan Yew, raise the debate whether Confucianism is incompatible with Western style democracy. While discussing those countries (i.e. Japan, Korea, Singapore and Taiwan) historically and geographically influenced by China, Huntington argues that Confucian societies lack a tradition of rights against the state and provide no legitimacy for autonomous social institutions at the national level. The maintenance of order and respect for hierarchy are central values and the conflict of ideas, groups, and parties is viewed as dangerous and illegitimate.⁷⁵ Lee had said that Western-style democracy would have deleterious effects and encourage permissiveness, social instability, and economically driven decision making.⁷⁶ The similar theory of new authoritarianism, based on the experiences of Taiwan, Singapore, and Korea, adapted by the Chinese government, claims that a country at China's stage of economic development needs an authoritarian regime for fast and stable economic growth and to

⁷⁴ Will Kymlicka (1997), *States, Nations and Cultures: Spinoza Lectures*, Van Gorcum Publishers, (Amsterdam, 1997), p.50.

⁷⁵ Ibid, Samuel Huntington (1991), p. 24.

⁷⁶ "Culture is Destiny: A Conversation with Lee Kuan Yew" in Fareed Zakaria (1994) (ed.), Meeting the Minister, *Foreign Affairs* 73 (March/April 1994) No.6, pp.189-194.

contain the unsettling consequences of development.⁷⁷ General criticism of Confucianism points out that Confucianism views the human society and morality as contextual individuals and role-based and thus goes against the concept of people having rights to be free, autonomous and independent of culture and society. Confucianism emphasizes that a genuine community is not composed of mutually disinterested agonistic individuals but is rather a microcosm of a big family. The Confucian conception of person-to-person relations advocates hierarchy and submission (i.e. a son is expected to follow every instruction of his father, however unreasonable it may be) and is thus often criticized as being too paternalistic and not giving enough recognition to individual autonomy. Confucianism rejects the appeal to personal rights would turn social relationships from harmonious to conflicting or litigious. The Confucian ideal of a social harmony emphasizes the virtues of concession and yielding rather than competition and self-assertion, which is hugely incompatible with the two core ideas in democracy – contestation and participation.⁷⁸

On the other hand, the debates for Confucianism provide some examples to support the idea that this traditional philosophy is not anti-democratic. The regular examination system to implement government bureaucrats, the emphasis on education, and the high tolerance of various religions and ethics are traditional mechanism, but do actually contain some modern democratic values. The examination system provides a gateway into higher political systems and significant paths to upward mobility that reinforces the relatively egalitarian income distribution. Education promotes literacy and is more concerned with non-economic issues. Confucian

⁷⁷ Yongnian Zheng (1994), “Development and Democracy: Are They Compatible in China?” *Political Science Quarterly*, Vol. 109, No. 2 (Summer 1994), pp.235–236.

⁷⁸ Joseph Chan (1999), “A Confucian Perspective on Human Rights to Contemporary China” in Joanne R Bauer and Daniel A Bell (1999) (ed.), *The East Asian Challenge for Human Rights*, (Cambridge University Press), pp. 216–227.

societies are relatively more tolerant and have coexisted with other religions better than the societies of either Islam or Christianity have managed.⁷⁹ Chinese authority was also not absolute in Chinese Confucianism; even for an emperor, it could be undermined altogether if his own immorality caused him to lose the “mandate of heaven”. Competition between families frequently makes Chinese society appear more individualistic, and even in political affiliations; loyalties to family, lineage, and region frequently take precedence over the mere fact of being Chinese.⁸⁰ The nature of the traditional Chinese family is the bulwark against the power of the state and a defence mechanism serving to protect its members against an arbitrary and capricious state.⁸¹ This is why Dr. Sun Yet-sen, the national father of the Republic of China, when describing this situation said the Chinese are like “a tray of sand”. The extreme familism and the weak Chinese deference to authority are maybe the real reason why there is a need to form an authoritative political system in Chinese societies.

The belief that the idea of Western style democracy is not suitable for a modern Confucian society is a typical error of extreme “Ultra-Orientalism” (Rudyard Kipling Fallacy: East is East, West is West)⁸² and a failure to understand the philosophy of “political Confucianism” or “state policy”, which legitimates a hierarchical political system tied to the imperial system and supporting the bureaucracy of gentleman-scholars, but was actually abolished with the overthrow of the Qing dynasty in 1911.⁸³ In some empirical research, the results shows that Asian countries are not significantly more communitarian and Western countries are not significantly

⁷⁹ Ibid, Francis Fukuyama (1995), p. 24.

⁸⁰ Ibid., p. 27.

⁸¹ Ibid., p. 29.

⁸² Donald K Emmerson (1995), “Singapore and the ‘Asian Values’ Debate”, *Journal of Democracy*, Vol. 6, No. 4, p. 99.

⁸³ Ibid, Francis Fukuyama (1995), p. 26.

more individualistic. While whether “maximum freedom and opportunity for individuals” would improve the quality of their life; or “if individuals continuously take care of their fellow citizens, even if it obstructs their individual freedom and development” would improve the quality of their life, individual freedom and opportunity were valued more highly in India than in France, were equally popular in Japan and West Germany, and were less highly valued in Switzerland than in Hong Kong.⁸⁴ Another research in China also indicates that general values are becoming more individualistic especially in the younger generation. Most individuals prefer to choose a riskier job, higher consumption, and tend to pay more attention to their own interests while competing in promotion, even with their close friends.⁸⁵

The final debate about Confucianism is the role of state. The state plays a dominant role in those Confucian countries – not because of reasons of tradition. The strong state is characteristic of a developing country – political stability must be given high authority. In China’s case, the state simultaneously seeks different goals such as economic growth, equitable distribution, political stability, and national unification. These goals often conflict with each other and make it difficult for the state to stand above society, like a “rational agent” in a democratic country.⁸⁶

3.5 Critics and Taiwan’s Uniqueness

In the final section of Chapter three, the researcher tries to apply the theoretical discussion to the explanation of democratic development in Taiwan in the 20-year period 1987–2008. There are different theoretical findings in the four levels of

⁸⁴ Ibid, Donald K, Emmerson (1995), p. 100.

⁸⁵ Ibid, Yongnian Zheng (1994), pp. 241–243.

⁸⁶ Ibid., p. 258.

analysis (democratic values, institutional choice, civic society and political culture).

In the first level of analysis (democratization), three approaches of thinking (modernization, transformation, and structural approaches) on the reasons of regime change are all plausible to the occurrence of Taiwan democratization: Taiwan's GNP grew from \$1,159 (1976) to \$11,859 (2006), which is typical in Huntington's "transition zone" of the third wave of democratic development – nondemocratic countries with GNPs between \$1,000 and \$3000 in the mid-1970s democratized or liberalized significantly in 1989. The Taiwanese case is also explainable in Preworski's analysis that Taiwan's democratic regime is theoretically "impregnable" and "expected to live forever" because the 1993's GDP is above \$6,000 (\$6,094) and the inflation rate has always been moderate.⁸⁷ Chu Yun-han argues that unlike most of Latin America and Eastern Europe, Taiwan's political opening was neither triggered by any major socioeconomic crisis or external market shock, nor was it accompanied by popular demands for major socioeconomic reforms. Support for the old regime's development was much more broadly based than is the case in many Latin American countries with comparable levels of industrialization. The achievement of robust economic development gives the incumbent elite a fairly free

⁸⁷ Inflation in Taiwan has been moderate. For example, between 1953 and 1980, the consumer price index rose at an annual rate of 7.95 per cent, whereas the wholesale price index averaged an annual increase of only 7.14 per cent. If the four years of energy crisis are excluded, the consumer price index rose only 5.39 per cent annually, and the wholesale price index increased by a mere 4.3 per cent per year. From 1980 to 1995, the inflation rate in Taiwan was even lower. In fact, it could be termed a period of mild inflation. During this period, the consumer price index averaged an annual increase of 3.35 per cent, and the wholesale price index averaged an annual increase of a mere 0.24 per cent. On average, from 1952 through 1995, the consumer price index went up annually by 6.34 per cent and the wholesale price index by 4.79 per cent. See the Government Information Office, "The Story of Taiwan- Economy", <http://www.taiwan.com.au/Polieco/History/ROC/report04.html>.

hand in limiting the scope and speed of democratic reform and crafting new political institutions.⁸⁸

In view of the transition approach, the Taiwanese case can be categorized as a “transformation” type – the elites in power took the lead in bringing about democracy (or an incumbent-led caretaker government) when the opposition power was weaker than authoritarian incumbent.⁸⁹ The occurrence of democratization is attributed to KMT President Chiang Ching-kuo’s wise but perhaps the “reluctant” decision⁹⁰: to democratize the political system in order to solve the “legitimacy crisis” of the KMT authoritative regime. Democratization is useful for the KMT to win the favour of Americans externally and support from Taiwanese internally (the KMT was a 15 per cent minor mainlanders’ dominant ruling class confronted with 85 per cent major native Taiwanese population). A series of political reforms by president Chiang in the middle of 1980, especially the Taiwanisation of the KMT leadership, can be proved as advantageous to its constant dominant control on politics. The Pan–Blue coalition has never received votes less than 50 per cent support in the past 20 years, which demonstrated that at least 40 per cent of native Taiwanese have become supporters of the KMT.⁹¹ The victory of KMT presidential candidate Ma Ying-jeou in 2008 also indicates that most Taiwanese voters do not think the presidential candidate needs to

⁸⁸ Yun-han Chu (1996), “Taiwan’s Unique Challenges”, *Journal of Democracy*, Vol. 7, No. 3, pp. 69–82.

⁸⁹ Ibid, Samuel Huntington (1991), p. 122.

⁹⁰ Lin Chia-lung (1998), *Paths to Democracy: Taiwan in Comparative perspectives* (PhD diss., Yale University, 1998), pp. 235–238.

⁹¹ There are about 80 per cent native Taiwanese voters. The remaining 20 per cent minority, including Hakka and aboriginals, is considered the major support to KMT. If we broadly define that five out of ten people support the KMT, there must be three out of eight native Taiwanese. The details of different level elections in the past 20 years will be discussed in Chapter 5.

be a native Taiwanese.⁹² After the investigation of 11 post-communist nascent democracies in Europe, Wu Yu-shan argues that the constitutional reforms in Taiwan can be classified into a type of “gradual amendment”: the series of constitutional reform between 1994–1998 is “endogenous” (initiated by state organization, not popular sovereignty) and “incremental” (with gradual steps, not in one stroke) “moderate amendment” (amended, not rewritten). The process also demonstrates that the KMT enjoyed higher legitimacy according to the following argument: “support for the old regime is inversely related to the radicalism of the constitutional reform”.⁹³ Some scholars remind people that the KMT is also a winner in the process of economic liberalization and privatization. The KMT transformed itself from an authoritative Leninist party to a legal state-enterprise owner.⁹⁴ The KMT is one of the richest political parties in the world, which makes the Taiwanese democratic transition a very special case, but is perhaps a useful model to predict the CCP’s possible future transformation. Nevertheless, Steven Tsang argues that whether Taiwan democracy model can be transferred to other countries is questionable since the democratic transition process of each country are fundamentally affected by its political culture, history, timing and local conditions. However, Taiwan’s case at least provide five lessons which are meaningful and inspire other democratic development including the political reform in China. Despite the democratic development had actually caused a destructive forces that the people are divided by

⁹² Ma is generally considered as a typical “KMT’s mainlander politician” as he was born in Hong Kong and his parents both came from China when the KMT regime fled to Taiwan in 1949.

⁹³ Yu-shan Wu (2005), “Taiwan Domestic Politics and Cross-Strait Relations”, *China Journal*, (Canberra, 2005), pp.35-60.

⁹⁴ Tun-jen Cheng and Yun-han Chu (2002). “State Business Relation in South Korea and Taiwan”, in Laurence Whitehead (ed.), *Emerging Market Democracies: East Asia and Latin America* (Johns Hopkins University Press).

ethnic, communal and national cleavage (2nd lesson), the KMT's ruling elite behave as an "inhibited political centre" (1st lesson) along with a credible and responsible opposition (3rd lesson) and high public expectation of the democratic development (4th lesson), there is no causal relationship between Confucian tradition and democratization.⁹⁵

The structural analysis also shows that the KMT enjoys considerable social support in the process of democratic transition. David Yang offers a counter-conventional account of Taiwan's democratization: "The better-educated middle class may display great enthusiasm for democratic principles in abstract, as the primarily beneficiaries of the state, they were also among the most politically conservative sectors in society."⁹⁶

Nevertheless, democratisation in Taiwan obviously caused a Blue–Green conflict: a structural cleavage in national identity, social class, and regional development. Shau argues that the Taiwanese national consciousness started to rise up in 1980 under the pressure of US protectionism and the related domestic anti-neo-mercantilism. Externally, in order to reduce dependence on the US market, Taiwan started to trade with different countries, but failed to either establish official diplomatic relations or to join various international organizations. The difficulty of international isolation was gradually attributed to the government's unrealistic and out-dated "One China policy".⁹⁷ Inside the island, anti-KMT neo-mercantilism had also caused a

⁹⁵ Steven Tsang (2007), "Democratization in a Chinese community- Lessons from Taiwan", in Robert Ash and J. Megan Greene (ed.), *Taiwan in the 21st Century: aspects and limitations of a development model* (First published by Routledge), pp.177-193.

⁹⁶ David Yang (2007), "Class, Ethnicity, and the Mass Politics of Taiwan's Democratic Transition", *World Politics* 59 (July 2007), pp.517–520.

⁹⁷ Chyuan-jenq Shiau (2004), Economic Development and Taiwan's Democratization, *Taiwan Democracy Quarterly*, Vol. 1, No.1, pp. 1–26.

considerable social discontent, such as poor labour welfare, environmental protection, and unbalanced regional development (north–south). Compared with supporters of the KMT, the traditional supporters of the DPP are “the minor urban and rural working classes”⁹⁸ mostly located in south Taiwan. Those people were at same time the most “deeply attached to a nativist Taiwanese identity” and “responsive to ethnic mobilization”.⁹⁹ Shu Keng and Lu-huei Chen argue that different types of regional economy also influence people’s perspective on cross-Straits relations. Most people in northern Taiwan are entrepreneurs, or professionals in technology and financial service departments benefiting from Cross-Straits economic interactions, and as a result favour the KMT’s policy orientation – especially deregulating trade with and investment in China. People in southern Taiwan turn to DPP because they are traditional working class and become victims when manufacturers were forced to move out to the mainland for lower labour costs.¹⁰⁰ As can be seen from Figure 3.4, there are four possible types of national identity if people have different perspectives of political and ethnic relations between China and Taiwan.¹⁰¹ Possibility A – Those who think that mainland China and Taiwan are the same nation and should be reunified in the future must agree a policy of one country (PRC, People’s Republic of China), two systems. Possibility B – Those who think that mainland China and Taiwan are different nations but that Taiwan will lose the independence war when China invades the island. Possibility C – Those who think people in mainland China and Taiwan are same nation but two different countries: Taiwan is democratic but

⁹⁸ David Yang (2007), “Class, Ethnicity, and the Mass Politics of Taiwan’s Democratic Transition”, *World Politics*, 59 (July 2007), pp. 503–538.

⁹⁹ Ibid. David Yang (2007), p. 507.

¹⁰⁰ Shu Keng and Lu-hui Chen (2003), “Taiwan’s Regional Blocks”, *Issue and Studies*, Vol. 42, No. 6 (2003), pp. 1–27.

¹⁰¹ Cheng-feng, Shih (2000), *Taiwanese National Identity* (Taipei, 2000).

China is not. Possibility D – Those who think people in mainland China and Taiwan are different nations and two different countries and will support Taiwan’s independence. Obviously, the CCP prefers options A and B (for CCP hardliners), the KMT prefers option C, and the DPP’s choice is option D. Phil Deans interesting article about the images of postage stamps issued by the government of Republic of China explain there were actually various identities in different stages and the elites aspirations and political objectives were reflected by the public propaganda. During the KMT authoritarian control, stamps were designed to show the virtuous leadership of Chiang Kai-shek , the importance of the ROC in international affairs , and success of KMT in delivering economic growth and development. However, the Taiwanese identities have become increasingly significant on postage stamps since 2000 when the DPP went into the central power.¹⁰²

Figure 3.4: Four types of national identity between Taiwan and China

	One Country	Two Countries
One Nation	A: PRC (One Country, Two systems)	C: ROC (Statu Quo)
Two Nations	B: PRC (China merges Taiwan)	D: ROT (Taiwan Independence)

Source: Author’s own compilation

In the level of institutional analysis, after seven constitutional amendments from 1991 to 2005, a semi-presidential system (executive level), a single-member district

¹⁰² Phil Deans(2005), “ Isolation, Identity and Taiwanese Stamps as Vehicles for Regime Legitimation”, *East Asia* (Summer 2005) , Vol.22,No.2,pp.8-30.

dual ballot system (legislative level), and a public referendum were introduced in Taiwan, but actually caused a lot of institutional difficulties in view of establishing an efficient government and fair election. Inappropriate institutional transplantation from and imitation of the French Fifth Republic semi-presidential system is a typical product of the KMT- dominated scenario that the DPP rejected for its failure to match the expansion of presidential power with a corresponding check-and-balance mechanism. The DPP called for the creation of a US-style presidential system and demanded the elimination of premiership, the abolition of the National Assembly, and the streamlining of the five-branch government. The DPP's proposal is correct but was rejected by the major KMT in the National Assembly. The problematic system eventually caused a typical executive–legislative deadlock when the DPP went to power in 2000 in that the majority party in parliament was still the KMT, and confrontation with the DPP president began. Compared with the general presidential system, the president in this system does not have veto power to break a deadlock but enjoys extensive powers of premier nomination and pre-eminence in the areas of foreign policy, defence, and relations with the mainland without the legislative's check and consent. Compared with the parliamentary system, the highest executive is the premier who is not certain to be the major party leader in parliament and the members of cabinet are not definitely legislators (incompatibility). Therefore, it does make sense that the premier has the power to dissolve the Legislative Yuan, and the Legislative Yuan can unseat a cabinet through a vote of no-confidence because the government is a form of presidential cabinet, not an alternative parliament with clear collective responsibility. Huwang's empirical investigation on the interaction between the Executive Yuan and Legislative Yuan after the DPP came to power (2000–2008) provided evidence of “minority government” difficulties caused by this problematic constitutional arrangement. She discovered that “government bills” passed with more

difficultly, took a longer time and even lost more than 60 per cent in the roll-call votes. Despite the percentage of the executive budget cut by legislatures not increasing in the era of divided government, the number and complexity of resolutions accompanying the budget review obviously did increase because the opposition party took advantage of their legislative majority to pass resolutions to bind and restrict the behaviour or the policy of the executive Yuan. To matters worse, the preference between the KMT and the DPP is highly polarized during this stage such that the increasing party cohesion significantly enhances the percentage of the Blue–Green confrontation (78.79 per cent).¹⁰³

The change from the Japanese SNTV (Single Non Transferable Voting) system to the single-member district, dual ballot mixed system (first vote for candidate according to plurality formula, second vote for party according to PR) for use in the legislative elections is another story of political struggle without sophisticated thinking of how to build up fair electoral and efficient policy making mechanisms. The KMT introduced the Japanese SNTV (Single Non Transferable Voting) system in the early local elections for the Taiwan Provincial Assembly. Like the LDP in Japan, the KMT do quite well under this system and had been enjoying the majority in the legislatures for a long time. Unlike the traditional view of SNTV, the system is super-proportional and tends to make more difficulties for small parties and produce larger seat bonuses for large parties because they face easier nomination and vote division problems,¹⁰⁴ Cox found that the SNTV privileges the governing parties in

¹⁰³ Shiow-duan Huwang (2003), “The Predicament of Minority Government in the Legislative Yuan”, *Taiwan Political Quarterly*, Vol. 7, No. 2 (2003), pp. 33–38.

¹⁰⁴ Edwin A. Winckler (1984), “Institutionalization and Participation on Taiwan: From Hard to Soft Authoritarianism?”, *China Quarterly*, No. 99, pp. 481–499; Rein Taagepera and Matthew Soberg Shugart (1989), *Seats and Votes: The Effects and Determination of Electoral System* (New Heaven: Yale University Press).

Japan (LDP) and Taiwan (KMT) by giving them superior access to particularistic policy benefits, which is useful in stabilizing both nomination and vote divisions within party.¹⁰⁵ The KMT makes fewer “over-nomination” errors than the fractionalised opposition and enjoys “mechanical advantage” from relatively low district magnitudes.¹⁰⁶ Nevertheless, the SNTV caused two major problems: “factionalism” and “money politics”. Under the SNTV system, there is typically more than single candidate competition in each district and each candidate can be elected with fewer votes. Vote buying thus become easier and candidates have more incentives to cultivate the “personal vote” which strengthen the intra-party conflicts and weakens the party discipline. After the DPP came to power in 2000, the KMT started to face pressure from its “black gold” images and gradually came to be considered as the major cause of political deadlock between executives and legislatures. In August of 2004, the KMT dominant Legislative Yuan passed the constitutional amendment that the legislative election in 2008 would follow Japanese new form in 1996, changing to a single-member district, dual ballot system, but the number of legislators would be reduced by half. The result of the 2008 election shows that the new system had caused such serious disproportionality problems that the KMT benefitted from an incredible seat bonus: 53.8 per cent vote support, but 77 per cent seats (61 of 79) in the single-seat constituency voting.¹⁰⁷ The new system was still advantageous to the development of factions because candidates had changed

¹⁰⁵ Gary W. Cox (1996), “Is the Single Non-Transferable Vote Super-proportional? Evidence from Japan and Taiwan”, *American Journal of Political Science* 40, p. 752.

¹⁰⁶ Gary W. Cox and Emerson Niu (1994), “Seat Bonuses Under the Single Non-Transferable Vote System: Evidence from Japan and Taiwan”, *Comparative Politics* 26, p.28.

¹⁰⁷ In 2006, the Legislative Yuan decide to reform its electoral system from SNTV to the new mixed system: 79 seats are decided by single-seat constituency voting and 34 by proportional representation from a party candidate list.

their support from their personal networks to a local basis. Some scholars suggest Taiwan should change from the present “independent” mixed system where the two electoral formulas are implemented independently (imitated from the Japanese new system) to a “dependent” one (Germany style) where proportional representation is applied in the higher tier so as to correct the distortions in proportionality caused by the plurality formula at the district level,¹⁰⁸ however, it is highly improbable that the KMT will accept this idea in order to keep its own inherent advantage from the new system. Meanwhile, the Taiwan’s leading parties had also reached a highpoint of inner-party democracy with the institutionalization of the member primary, survey system and direct primaries for party leaders. However, Dafydd Fell argues that the directions of these democratic procedures are also influenced by the election results and inner- party factional balance of power. Fortunately, the KMT has completely kissed its authoritarian nomination practice goodbye and its counterpart DPP have taken a more consensual approach to nomination reform and very anxious to avoid the image of political corruption and factions struggle.¹⁰⁹

In the third level analysis, civil society is undoubtedly the “protective space and source” of opposition power and movement. According to Hsiao’s analysis, the aim of the rising social movements in 1980 can be classified within three categories: labour and peasant benefits, welfare of social minority (disability, women and aboriginals), and environmental protection issues.¹¹⁰ These movements are considered the result of KMT mercantilism, later combined with DPP opposition to KMT authoritarian

¹⁰⁸ Matt Golder (2005), “Democratic Electoral Systems around the World, 1946–2000”, *Electoral Studies* 24, p. 112.

¹⁰⁹ Dafydd Fell , “ Democratization of Candidate Selection in Taiwanese Political Parties” , *Journal of Electoral Studies* (November 2006), Vol.13, No.2 , pp.167-168.

¹¹⁰ Michael Hsin –huang Hsiao (2004), “Non-Governmental Organization, Democratic Transformation and Democratic Governance in Taiwan”, *Taiwan Democracy Quarterly* (2004), Vol. 1, No.1.

dominance.¹¹¹ However, the vigorous opposition does mean there is a good social basis for democratic development in Taiwan. According to Lin's investigation, 70 per cent of people do not join an official group (political, social service, or religious) and 60 per cent of people do not trust their "neighbours" or strangers on the street.¹¹² According to the theory of social capitalism, this low civic engagement and social trust are not good for political participation (political knowledge, training, and efficiency) and support for democratic values (tolerance, respect and compromise). Although various reality TV/talk show programmes about politics are popular and influential to people's daily life,¹¹³ this modern technological trend is considered as privatizing or individualizing people's use of leisure time and thus disrupting many opportunities for social capital formation.¹¹⁴ Moreover, Lin and Yang observe that compared with older native Taiwanese males, mainlanders, women, and young people have low political efficiency and support for democracy.¹¹⁵ The older generation of native Taiwanese have deeper memories about the KMT's authoritative control and thus cherish the coming of democracy. As Taiwanese society became freer¹¹⁶ and

¹¹¹ Arthur Jen-fang Ting (2007), "The Mutual Constitution of Civil Society and Democracy: A Comparison of Recent Developments in Organized Civil Society in Japan and Taiwan", *Taiwan Democracy Quarterly*, Vol. 4, No.2, pp. 1–31.

¹¹² Tsong-Jyi Lin, (2007), "Social Capital and Democracy: Case Studies in Taiwan", conference papers published in the Annual Conference of Chinese Association of Political Science (Sep. 29–30th September, 2007, I-Shou University, Kaohsiung).

¹¹³ Every evening, from 7:00 pm to 12:00 pm, there are at least eight political talk shows presented on the major channels of Sky TV.

¹¹⁴ R. Putnam, (1995), "Bowling Alone: American's Declining Social Capital", *Journal of Democracy*, Vol. 6, No. 1, p. 74.

¹¹⁵ Ibid, Tsong-Jyi Lin (2007).

¹¹⁶ According to the 2008 Country Report in the Freedom House Survey:, Taiwan continued to be listed as a "Free" country, and received the highest evaluation with a score of 1 in the area of civil liberties and political rights.

Website: www.freedomhouse.org/template.cfm?page=22&year=2006&country=7069

the DPP came to power in 2000, democracy was not of use for opposition to overthrow the KMT authority but evolved into the idea of self-determination for expressing an anti- China disposition. According to Shih, the idea of a limited government lacks appreciation in Taiwan's cultural background. Taiwan's postcolonial condition is such that political leaders suffer deprivation and inferiority and can only feel satisfied by democratic self-empowerment.¹¹⁷

Conclusion

Following the literature review and systematic discussion about the major democracy theories and uniqueness of Taiwan's democratic development, two suggestions for the further research of this essay are considered as helpful, illustrated as follows.

First, the detailed discussion about the four levels of democratic development in the former four sections of this chapter and the four-level analytical framework created by the researcher were proved as workable and applicable to the case of Taiwan's democratic development – especially the interrelation between democratic values (level 1) and its effects (level 2) on institution building. However, although the island's democratic system is initially defined by the researcher as a “nascent” democracy, the 62-year democratic development history following the KMT's flight to Taiwan after 1949 is a necessary historical evidence to make this framework more comprehensive and predictable. Therefore, the researcher will start to investigate the political and economic history in the first two chapters of empirical studies (Chapter 5: Pre-democracy of Taiwan: Under Two Chiang's Control; Chapter 6 Democratic Transitions under Two Taiwanese Presidents – Lee Teng-hui and Chen Shui-bian),

¹¹⁷ Chih-yu Shih (2003), “the Global Constitution of “Taiwan democracy”: Opening up the image of a successful state after 9/11”, *East Asia: An International Quarterly*, Vol. 20, No.3, p.97.

especially the democratic values of the highest political leaders, their decision making, relative measurements and the political consequences

Second, as argued in Chapter 1.2, the other aim of this research is to understand how Taiwan survives between two international superpowers, the United States and China. As a small island with a considerable export economy globally, the work and future development of this nascent democratic system is definitely relative to external changes in the international political environment, especially the Cross-Strait relations between Taiwan and China. Initially, the diplomatic setback, trade relations, and movement overseas of influential Taiwan companies are considered by the researcher as possible external international political economic factors influential to the island's political values, popular mentality, institution building and even the shape of the social economic structure. These effects also undoubtedly relate to the island's future democratic development. The researcher will try to find answers in the following chapters.

Chapter 4 IPE Theories and Cross-Strait Relations

Introduction

Since the IPE theories focus on the global distribution of wealth and economic activities and their effects on national autonomy, the characteristic of cross-strait interaction – a politically confrontational power relationship with economically intimate commercial ties – is typical of the inevitable clash between the logic of market and the logic of state, both of which are central to the study of international political economy.¹¹⁸ The logic of the market system is to expand geographically, to incorporate more and more aspects of a society within the price mechanism, and to locate economic activities wherever they will be most efficient and profitable. In contrast, the logic of state is to capture and control the process of economic growth, capital accumulation, relative gains of trade, and territorial distribution of industry in order to increase the power and economic welfare of the nation.

In this chapter, I am trying to create a systematic analytical framework (Table 4.1), inspired by Susan Strange's pioneering structural analysis of international political economy, to review the current research about Cross-Strait relations. According to Susan Strange's description, the work of a world political economy system is shaped and determined by "structural power", far more than "relational power", including the preservation of people from violence (security), goods and services for survival (production), supply and distribution of credit (finance) and "know-how" of technology (knowledge), which are controlled and operated by powerful and influential states, political institutions, enterprises (majorly

¹¹⁸ Robert Gilpin (1987), *The Political Economy of International Relations* (New Jersey: Princeton University), p.81.

multinational corporations, MNCs), and professionals.¹¹⁹ Between China and Taiwan, the confrontation in international organizations; the diversified DPP and KMT trade policy (protectionism or open-door); China's RMB policy; and Taishang's activities (Taiwanese business in the mainland), are defined by the researcher as the four major international political economic phenomena which are influential to the dynamic change of cross-Straits relations and the evolution of the island's democratic development. The relative IPE theories and research articles will be discussed in the following sections.

Table 4.1: Four IPE phenomena of Cross-Straits Relations

Market– Authority Nexus	Security	Production	Finance	Knowledge
State	1 Confrontation in international organization			
Political institutions		2 Protectionism or open door	3.RMB	
MNCs				4.Taishang's activities

Source: Author's own compilation

¹¹⁹ Susan Strange (1994), *State and Market* (2nd Edition London, Pinter Publishers), p.24.

4.1 Confrontation in international organizations

The interaction between China and Taiwan in international organization provides researchers with another dimension to analyse the changing nature of Cross-Strait relations. Rather than focusing on the increasing numbers of countries with official diplomatic relations, the KMT and DPP both realise that successful participation in international organization is both a more practical and more efficient method by which to expand Taiwan's international space without stimulating Beijing to interfere and potentially block such expansion. According to neo-liberalism theories, international organization is an intermediate agent which provides a more neutral framework, issue linkage, and transparency for greater multi-cooperation rather than bilateral interaction.¹²⁰ Nevertheless, the realist-institutionalism theorists have different perspectives about the work of international organization. They think international organization not only promotes interstate cooperation, but sometimes results in additional conflicts and competition among different nations. Various interstate interactions also depend more on different types of individual relations before they join.¹²¹ Sometimes, the inequalities created by the major powers in international organization are greater than the problems they solved.¹²²

Taipei considers the rapid East Asia regional integration to be a naturally "market driven" rather than a "policy driven" process.¹²³ The economic factors are relatively

¹²⁰ Robert O. Keohane, (1982), "The Demand for International Regimes", *International Organization*, Vol. 36, No. 2, pp. 325–355.

¹²¹ Ronald R. Krebs (1999), "Perverse Institutionalism: NATO and the Greco-Turkish Conflict," *International Organization*, Vol. 53, No. 2, pp. 343–377.

¹²² Andrew Schotter (1981), *The Economic Theory of Social Institutions* (New York: Cambridge University Press).

¹²³ Albert Fishlow and Stephan Haggard (1992), *The United States and the Regionalization of the World Economy*, Development Centre Documents (Paris: OECD).

more important than any political consideration in the process of Taiwan's foreign economic policy making. Taipei views that the increasing East Asian regional economic integration is built up from "regionalization" to "regionalism"; Christopher M. Dent gives a clear explanation about these two processes. Regionalization refers to the growth of intra-regional economic linkages (trade, investment, finance) at business or market level, whereby regional concentration of internationally linked private-sector activities help develop transnational economic spaces within a region and also regional economic interdependence generally.

Regionalism, on the other hand, "arises from public policy initiatives, such as an FTA or other state-led projects of regional economic co-operation and integration that originate from inter-governmental dialogues and treaties." "Regionalization and regionalism are mutually reinforcing."¹²⁴ "Taipei is aware of how non participation in the new bilateral trade agreement (FTA) and the ASEAN plus Three (APT) process has the potential to marginalize Taiwan both 'geo-economically' and 'geopolitically'."¹²⁵ However, Beijing considers Taiwan is making use of the legitimate participation¹²⁶ of international regime as a means of agenda setting and linkage in political bargaining¹²⁷ for greater international recognition of its political status. Taiwan's foreign economic policy is interpreted by China as "policy driven" by political motives to de facto independence rather than "market driven" by regional economic integration, no matter if the KMT or the DPP are in the office. As Gordon Cheung commented, this series of "Taiwan salient movement toward

¹²⁴ Christopher M. Dent (2005), "Taiwan and the New Regional Political Economy of East Asia", *the China Quarterly*, No.182 (June 2005), p. 388.

¹²⁵ Ibid., p. 401.

¹²⁶ Parris H. Chang (1994), "No Security without Taiwan", *Asian Wall Street Journal*, 21 July 1994, 6.

¹²⁷ Robert O. Keohane, and Joseph Nye (1989), *Power and Interdependence*, 2nd edition (New York: Harper Collins Publishers).

internationalization” had created an impression of Taiwan seeking independence so far as China was concerned.¹²⁸

In fact, China’s opposition to Taiwan is another kind of policy driven by its “one country, two systems” principle. This basic logic makes the Chinese government very sensitive to Taiwan’s membership and agenda setting in any international organization.¹²⁹ For fear that Taiwan will get equal membership, China constantly opposes Taiwanese representatives who are also high ranking government officials and any initiatives proposed in the name of financial contribution to regional economic development.¹³⁰ Another of China’s worries is the US factor. Despite much research showing that the economic power and political leadership of the United States has been relatively declining and the US itself is no longer capable of providing “international collective goods” such as foreign aid¹³¹ due to increasing international industrial rivalry from the rise of new economic power,¹³² federal budget and trade/payments deficit,¹³³ and slowing of American productivity growth;¹³⁴ it is believed that the US is still influential in international organizations and that the US encourage the use of economic regimes binding forces to coordinate country relations.

¹²⁸ Gordon C.K. Cheung (1997), “APEC as a Regime for Taiwan’s Interdependence with the United States and Mainland China”, *Issues and Studies*, Vol. 33, No. 2, p. 25.

¹²⁹ Wen-heng Chao (2002), “Cross-Strait Interaction: from APEC to WTO”, *Issues and Studies*, 16: 3 (Sept. 2002), pp. 1–13.

¹³⁰ A typical example is China’s opposition to the Asian Monetary Fund (AMF) and Taiwan’s involvement in the Asian Bond Fund.

¹³¹ Mancur Olsen (1996), in Jaime De Melo and Arvind Panagariya (1996) (ed.), *New Dimensions in Regional Integration*, (New York: Cambridge University Press), p.125.

¹³² Robert O. Keohane (1984), *After Hegemony: Cooperation and Disorder in the World Political Economy* (Princeton: Princeton University Press).

¹³³ Susan Strange (1998), *Mad Money* (Manchester, UK: Manchester University Press).

¹³⁴ Steven Weber (1997), “Institutions and Change” in Michael Doyle and John Ikenberry (ed.), *New Thinking in International Relations* (Boulder, CO: West view Press).

For example, Taiwan and China's applications for WTO membership have thus harmonized the US comprehensive engagement policy toward China and continuous commercial and friendly relations with Taiwan.¹³⁵

Table 4.2 shows a clear example of Cross-Strait confrontation from APEC to WTO in three perspectives (regulation, power relations, and issues setting) and explains China gradually receiving advantages in international organizations owing to its superiority in the legal arena, the role of a world hegemonic power and superior agenda setting power. Taiwan only owns advantages in compliance with international principles, norms and rules.

Table 4.2: Cross-Strait confrontation in international organizations from APEC to WTO

	APEC	WTO	Compare	Advantage
Regulation	Forum	International organization	Membership	China =Taiwan
			Legal arena	China >Taiwan
Power relations	Regional interaction	Global competition	1.Hegemonic power 2. Global North–South conflicts	China > Taiwan
Issues setting	Various issue	Trade issue	World production system	China > Taiwan
			International norms and rules	Taiwan > China

Source: Author's own compilation

¹³⁵ Ibid, Gordon C.K. Cheung (1997), p.37.

First, in terms of regulation, unlike APEC, the WTO does not hold an annual forum, it is not necessary to be a sovereign state in order to be a member, neither must the representatives be a head of state – APEC holds an annual forum and its representatives must be a national leader, president or prime minister. This more flexible regulation thus provides Taiwan a good opportunity to obtain both membership and relative international recognition in the name of “regional economy” without question or challenge from Chinese opposition. However, unlike APEC’s unofficial annual forum in which the conclusion is decided by consensus, the WTO’s forum is relatively more official and it is compulsory that its members obey its legal resolution by vote. Under this circumstance, China has more power to mobilize the veto any of Taiwanese proposals, including an arbitration application because Taiwan has suffered poor international recognition with only 23 states having full diplomatic relations with Taiwan. Second, in power perspectives, the WTO is more complex due to the global competition among major economic power and global north–south conflicts.¹³⁶ Thus, for China, the WTO is advantageous in terms of gaining more agenda setting power because China is considered as the rising hegemonic power and gaining influence over developing countries in Africa and Latin American. Moreover, the WTO discussion focuses more on trade issues and because China has already played an important role in world production system more emphasis is placed on the Chinese factor. However, the whole situation is not completely pessimistic to Taiwan. Owing to its earlier liberalization and integration into the world economy, Taiwan enjoys higher compliance with international principles, norms and rules, for example, respect of copyright and environmental protection. On these issues, Taiwan can receive greater support from advanced countries; enhancing Taipei’s ability to work

¹³⁶ Ibid, Chao Wen-heng (2002), p.12.

with other governments, and somewhat eroding Beijing's attempts to isolate Taiwan internationally.

After 1990, when financial crisis-induced tensions threatened to destabilize regional trade diplomacy, the WTO was perceived to be inefficient and bilateral FTA projects became popular and were viewed as a better mechanism for trade liberalization and regional economic interdependence management.¹³⁷ The trend of increasing bilateral negotiations and economic regionalism, the proliferation of bilateral FTA projects, and enhanced economic diplomacy interaction in East Asia has: introduced a series of significant international economic agreements between the region states; stimulated regionalization processes through reducing barriers to intra-regional trade and investment; built a sub-structural basis for regionalism and regional economic community building; and even brought regional distribution of power and hegemonic aspirations of Japan and China.¹³⁸ In this trend, Taiwan faces a dilemma between marginalization or further integration with China. Under pressure from China and its threat to its major trade partners, Taiwan's FTA options are currently rather narrow – the 26 relatively small states that Taiwan enjoys full diplomatic relations with account for only 4 per cent of its total trade.¹³⁹ By a similar token, if Taiwan accepts Beijing's proposal of an FTA between Taiwan and China, discounting any difficulties relating to resistance to the “one country, two systems” formula, it will be always a hard lesson for Taiwan's government to find a balance

¹³⁷ Barry Eichengreen, “[Discussion on Multinational and Bilateral trade policies](#)” in Jaime De Melo and Arvind Panagariya (1996) (ed.), *New Dimensions in Regional Integration* (New York: Cambridge University Press), pp.120–121.

¹³⁸ Ibid, Christopher M. Dent (2005), p.394.

¹³⁹ ROC Trade Partners Ranking List, [ROC Bureau of Foreign Trade Information](#) .Website: http://cus93.trade.gov.tw/FSC3/FSC3040R.ASP?rptName=FSC3040R&typ=A&BYEAR=200801&YEAR=200806&USER_ID=&intType=1.

between cross-strait liberalization and erosion of national autonomy and security.

4.2 Cross-Strait trade relations and RMB exchange rate

Macroeconomic policy consists of two basic tools for managing a national economy: fiscal and monetary policies. The principal instruments of fiscal policy are taxation and government expenditures; monetary policy works through its determination of the size and velocity of a nation's money supply.¹⁴⁰ Free capital outflow accompanying the relocation of Taishang (Taiwan business in mainland) for lower cost and integrating financial markets across the Taiwan strait had reduced the autonomy of the Taiwanese government's fiscal policy and its ability (especially the erosion of revenue basis to control their own economies). According to a ROC Investment Commission report, by the end of May 2008, almost three-quarters of Taiwanese firms that had invested overseas had investment in the Chinese mainland. The majority of investments over the past ten years have been in electronics, metal products, petrochemicals and plastics, food and beverage processing, medical equipment and services. Through the direct investment from Taiwan and indirect investment via Hong Kong, the British Virgin Islands, and the Cayman Islands, an estimated 50 per cent of Taiwan's outbound FDI is now invested in China.¹⁴¹ Taiwan is becoming overly dependent on the PRC market which is still the major source of trade surplus.¹⁴² Like Susan Strange's interesting analogy about the credit system in

¹⁴⁰ Ibid, Robert Gilpin (1987), pp. 370–371.

¹⁴¹ The Permitted Overseas, Foreign, and Mainland Investment Report (July, 2008), Investment Commission, Taiwan's Ministry of Economic Affairs (MOEA), Republic of China (ROC); The data can be seen on the website:
http://www.moeaic.gov.tw/system_external/ctrl?PRO=NewsLoad&id=607.

¹⁴² Shu Keng and Choung –sheng Lin (2005), "The Political Role of Taiwan Businessmen in Cross

any economy: “Credit is literally the life blood of a developed economy. It has to circulate regularly and reliably. It has to stay healthy and stable or the society suffers, just as the body suffers if there is disorder in the blood or too much or too little of it”,¹⁴³ Vice President Shao, who has been acknowledged as the most important economic policy consultant for President Ma, had given a similar description regarding the loss of money due to unilateral capital outflow from island to mainland: “Taiwan is like a strong man who donates too much blood but without feedback from mainland, no matter how strong you are, you cannot live without enough blood to nourish and renew your body”.¹⁴⁴ Another factor influential to cross-strait trade is the adjustment of the Renminbi (RMB) exchange rate. The very low pay labour and vast potential as a market have made China the world’s largest recipient of foreign direct investment (FDI). Like a successful developing country, China makes use of these large infusions of outside capital to build the costly infrastructure required for their economic development¹⁴⁵ and a magnet “to attract new waves of investment”. China is now a national reserve surplus country, but the huge capital inflow created difficulties for the Chinese government to control its price stability and maintain its export competitiveness.

Table 4.3 presents the contradictory perspectives (policy orientations, role of China, trade relations, economic security and domestic interests) of the DPP and the KMT on the nature of cross-strait trade relations. The DPP government policy

Strait Integration “, *Mainland China Studies*, Vol. 48, No. 1(March 2005), p. 5.

¹⁴³ Ibid, Susan Strange (1994), p. 91.

¹⁴⁴ Regarding the parable, please see the video in the KMT 2008 presidential Campaign website:
<http://2008.ma19.net/policy4you/economy/reform>

¹⁴⁵ Regarding using the FDI to strengthen infrastructure to attract more capital, please see W. Arthur Lewis (1978), *The Evolution of the International Economy Order* (Princeton University Press), pp.28-34.

orientation is a typical protectionism¹⁴⁶ and views China as a competitor rather than a labour-intensive processor for Taiwanese industries.¹⁴⁷ Taiwan suffered higher vulnerability¹⁴⁸ in the asymmetric cross-strait trade relations,¹⁴⁹ especially higher cost of a loss of national security, and potential risk of economic leverage from Beijing.

Table 4.3: The differences in DPP and KMT mainland trade policy

	DPP	KMT
Policy orientation	Protectionism (Top- down)	Open- door (Bottom -up)
Role of China	Competitor	Co-operator
Trade relation	Asymmetric dependence	Complementary and equal interdependent
Economic security	Vulnerable dependence on mainland market	Good for 1.Innovation 2.Utilization of national resource 3. National efficiency 4. International competitiveness
Domestic interest	Winner and losers	Protectionism transplant cost from producers to consumers

Source: Author's own compilation

¹⁴⁶ Max Gorden (1993), “The Revival of Protectionism in Developed Countries “ in Dominick Salvatore (ed.), *Protectionism and World Welfare* (Cambridge and New York Cambridge University Press,1998), pp. 54–57.

¹⁴⁷ Tse-kang Leng (2002),” Securing Economic Relations across the Taiwan Straits: New Challenges and Opportunities”, *Journal of Contemporary China* (2002), Vol. 11, No. 31, p. 262.

¹⁴⁸ Robert O. Keohane, and Joseph .S. Nye (2001), *Power and Interdependence*, (3rd edition, New York: Longman), pp.14-15.

¹⁴⁹ Klaus Knorr (1977), “International Economic Leverage and Its Uses”, in Klaus Knorr and Frank N. Trager (ed.), *Economic Issues and National Security* (Lawrence, KA: University of Kansas Press), p. 102.

The territorial distribution of core industry and technological capability is always of the greatest concern to every state for the national security reasons.¹⁵⁰ The comparative advantage resulting from a natural supply supported by experience and the nations with a head start in a particular technology tend to strengthen their position over time.¹⁵¹ As Taiwan moves its IT manufacture into PRC, Taiwan's security planners are concerned that Taiwanese business may be indirectly helping to develop the PRC's military capabilities.¹⁵² Despite that Taiwanese business still enjoys advantages on capital and technology, as more and more Taiwan businesses gradually lose their international competitiveness and transfer sales from the global market to the mainland domestic market, the possibility for PRC to exercise economic leverage becomes very high. Lin Choung-sheng argues that if China implements economic warfare such as cutting Cross-Strait economic ties, "small and democratic" Taiwan is obviously more sensitive and vulnerable, but China can tolerate more impacts and enjoy greater autonomy owing to the huge domestic market under authoritarian control.¹⁵³ The final DPP consideration regards domestic factors. The DPP government consider it would be a political risk to support further Cross-Strait liberalization and integration, which is believed to be the major reason behind a greater number of resentful losers (those who cannot compete with cheaper Chinese labour) and just a few winners (businessmen who benefit from the cross-strait

¹⁵⁰ Robert Gilpin (1987), *The Political Economy of International Relations* (New Jersey: Princeton University), p. 80.

¹⁵¹ Gene M. Grossman and Elhana Helpman (1990), "Comparative Advantage and Long Run Growth", *American Economic Review* (September 1990), pp. 796–815.

¹⁵² Karen M. Sutter (2002), "Business Dynamism Across the Taiwan Strait", *Asian Survey*, Vol. 42, No. 3, p. 534.

¹⁵³ Tse-kang Leng (1999), "The Nature of Cross Strait Economic Dynamism: The Interaction between State and Society" in Pao Tzong-ho and Wu Yu-Shen (ed.), *Debates on Cross Strait Relations Theory* (Taipei: Wunan Publishers, 1999), pp. 232–236.

economic integration and liberalization).¹⁵⁴ Technological advances especially the computer and information economy significantly increased the demand for low skilled workers and greatly increased demand for skilled, especially college educated workers. The “run-away” labour intensive plants and “take job away” from mainland workers have destroyed the internal vertical division of labour and caused the “hollowing out” of island industries.¹⁵⁵ It is the typical case that the competition from low wages countries has stimulated labour-saving technological changes in advanced countries and thereby reduced the demand for low wage labour and caused unemployment.¹⁵⁶ The DPP government is deemed to play the role of the protectionist because its basic supporters on the whole consist of workers and farmers – the typical resentful losers in the process of globalization.

The KMT consider Cross-Strait interaction is a normal part of growing East Asian economic integration. Taiwan has become increasingly dependent on trade within the region especially intermediate goods.¹⁵⁷ Like general economists who dispute the alleged benefits of trade protection, the KMT criticise that protectionism will decrease the national international economic efficiency and the incentive for firms to innovate and climb the technological ladder. It also discourages shifting scarce national resources to profitable use and causes unfair redistribution of national income from customers to protected producer interests.¹⁵⁸ As Gary Clyde Hufbauer and Kimberly Ann Elliot researched, the past protection of 21 industries had actually

¹⁵⁴ Ibid, Mancur Olsen (1996), pp. 122–127.

¹⁵⁵ Robert Gilpin (1987), *The Political Economy of International Relations* (New Jersey: Princeton University): p.204.

¹⁵⁶ Adrian P. Wood (1994), *North –South Trade, Employment, and Inequality: Changing Fortunes in a Skill-Driven World* (Oxford: Clarendon Press).

¹⁵⁷ Karen M. Sutter (2002), “Business Dynamism Across the Taiwan Strait”, *Asian Survey*, Vol.42, No.3, p.528.

¹⁵⁸ Max Gorden (1974), *Trade Policy and Economic Welfare* (Oxford: Clarendon Press).

saved few jobs but the cost to consumers had been approximately \$170,000 per job saved. The equivalent figure for Japan is \$600,000.¹⁵⁹ Such protection constitutes a heavy burden on an economy. The KMT views that cross-strait economic relations are complementary and equally interdependent. Taiwan uses its huge trade surplus with mainland China to upgrade Taiwan's industrial levels and strengthen the economic foundation for Taiwanese independence. For China, the Taiwanese investments create employment, promote technological know-how, and boost the prosperity of mainland China's local economy.¹⁶⁰ For most Taiwanese businesses, occupying a strategic site on the mainland's booming coastal area is the major reason to relocate and imperative in order to keep its international competitiveness. According to Porter, the national governments do play an important role in helping or thwarting the efforts of firms to create a competitive advantage in international markets. Porter's research strongly supports the idea that advantage in international trade, at least in high-tech industries, can be and is created by deliberate corporate and national policies. Government policies can: support or hinder the supply-and-demand factors affecting the successes of particular sectors; protect industries from international competition; foster technological innovation through support of R&D; and protect proprietary knowledge from foreign competitors.¹⁶¹ The KMT criticise the DPP government's failure in cross-strait negotiations, and prohibited and limited investment¹⁶² do not provide

¹⁵⁹ Gary Clyde Hufbauer and Kimberly Ann Elliot (1994), *Measuring Costs of Protection in the United States* (Washington, DC: Institute for International Economics).

¹⁶⁰ Ibid, Tse-kang Leng (2002), p. 263.

¹⁶¹ Michael E. Porter (1990), *The Comparative Advantages of Nations* (New York: Free Press), pp.617-682.

¹⁶² The limitation is loose and was modified after Ma went to office after March 2008. According to the latest modified "Guidelines for Evaluations of Technology Cooperation and Investment in Chinese Mainland". (August 29, 2008), "the MOEA Investment Commission office still reviews proposed investment on a case –by case basis and uses a rating system to assess a variety of factors

Taiwanese businesses with support but rather increase the difficulty of economic efficiency. In some cases, restrictions have encouraged Taiwanese entrepreneurs to invest in Hong Kong or increasingly free ports like the Cayman Islands and British Virgin Islands in order to bypass such rules.¹⁶³ The real guarantee to protect Taiwanese interests is to further internationalise Taiwanese economic transactions with mainland China, rather than imposing top-down restrictions.¹⁶⁴

The Chinese government faces a trilemma, or the typical “irreconcilable trinity” regarding the adjustment of the Renminbi (RMB) exchange rate – no international monetary and financial system can accommodate all three of desirable goals: fixed exchange rates; independent monetary policy; and capital mobility, at most it can incorporate two of these objectives.¹⁶⁵ In the long term, freedom of capital movement to facilitate the conduct of trade, foreign investment, and other international business activities will undermine the fixed price and independent monetary policy which promotes economic stability and enables the government to deal with various domestic economic problems. In the short term, China faces international pressure to appreciate the RMB price. The low production cost (especially patronage policy and labour incentives) have made Chinese global export products very competitive in price but have been attributed as the major reason of trade deficit, deflation, and decline of manufacture competitiveness in the major industrialised countries. The Chinese government’s RMB policy is suspected to be manipulation which did not

and the special case investments free from evaluation are generally supposed to be under NT\$50 million. For small and medium-sized firm, the limit is justified from NT\$60 million to NT\$80 million; Private firms investment may not exceed 60 per cent of net assets or capital (40 per cent before modification)”. The details can be seen at the follow website: http://www.moeaic.gov.tw/system_external/ctrl?PRO=LawsLoad&id=9.

¹⁶³ Ibid, Karen M. Sutter (2002), p. 527.

¹⁶⁴ Ibid, Tse-kang Leng (2002), p.264.

¹⁶⁵ Robert A. Mundell (1968), *International Economics* (New York :Macmillan).

reflect the real price in the market mechanism. In July 2003, the chairman of European Union Committee criticised China's RMB policy as a kind of new protectionism.¹⁶⁶ The US government even threatened to tax a "sanction cost" to China's import goods for violation of unfair trade restrictions.¹⁶⁷

In addition to international pressure and economic stability, the Chinese government worries about the rising RMB price causing several negative effects. The Chinese government increases its RMB supply to maintain RMB price stability due to high foreign exchange reserve percentage in GDP.¹⁶⁸ The increasing RMB supply therefore causes the price of RMB to go up. The higher RMB price will increase the cost of export enterprise and inevitably impact export competitiveness.¹⁶⁹ The decreasing export¹⁷⁰ and FDI¹⁷¹ will result in slowing the economic growth and exacerbate deflation.¹⁷² The second worry is bubble economies. The speculation on RMB price would draw a greater number of risky international investors into the financial and housing market.¹⁷³ According the 2004 statistic, the hot money is

¹⁶⁶ Chen –yuan Tung (2005), *The International Political Economic Analysis of the Renminbi Exchange Rate, Issue and Studies*, Vol. 44, No. 6 (Nov–Dec 2005), p. 145.

¹⁶⁷ *Ibid.*, p. 146.

¹⁶⁸ Morris Goldstein and Nicholas R. Lardy, "China's Revaluation Shows Size Really Matters", *Financial Times*, 22 July 2005.

¹⁶⁹ Ji Zhou (2005), "The Change of RMB Exchange Rate and its Effects on Taiwan Economy", *Chung-Hua Insitution for Economic Research Centre Report*, pp. 3–17.

¹⁷⁰ Robert A. Mundell (2006), *Evolution of the International Monetary System and its Implications for China*, presentation at the Capital University of Economics and Business in Beijing, September 6, 2006.

¹⁷¹ Hai Wen (2003), "There is Potential Possibility of RMB Devaluation", *Sina, Finance*, November 2003.

¹⁷² Robert A. Mundell (2005), *The Case for an Asian Currency?*, presentation at the Symposium on Monetary Affairs, Institute for International Monetary Affairs, Tokyo, 12 November 2005.

¹⁷³ *Ibid.*, Ji Zhou (2005), *ibid.*, pp. 3–11-17.

estimated at 11.9 percent of China's GDP ¹⁷⁴ Moreover, the weakness of the Chinese financial system, such as an immature foreign exchange market and serious doubtful accounting problems of state owned enterprises ¹⁷⁵ has potentially made the bank failure worse, and possibly the financial crisis. Third, the decreasing export competitiveness and deflation will increase unemployment especially in rural areas. ¹⁷⁶ The instability of rural areas will be the greatest political risk to CCP legitimacy. Finally, the appreciations of the RMB will weaken the international confidence in the RMB's credibility because it will increase the debt, especially in South East Asian countries. ¹⁷⁷ Owing to so many problems, the Chinese government raised several reasons to reject RMB appreciation. First, some economy experts think a high foreign exchange reserve in GDP does not facilitate inflation – a major consequence of rising inflation was increased food prices. ¹⁷⁸ Second, China's global economic influence is exaggerated in that China's GDP is only one-tenth of US' and one-quarter of Japan's production. ¹⁷⁹ Third, during 1994–1997, the price of the RMB was fundamentally raised by 30 per cent – showing that the Chinese government did not manipulate the price to keep its export competition. ¹⁸⁰ Actually, China faced more challenges after its domestic market gradually integrated into the world economy. After the WTO forum, foreign products will be easier to get to the Chinese domestic market and the

¹⁷⁴ Ibid, Chen –yuan Tung (2005), p. 136.

¹⁷⁵ Ibid, Robert A. Mundell (2006).

¹⁷⁶ Chen-yuan Tung (2004) “The Dilemma of RMB Exchange Rate Policy: Fixed Exchange Rate or Independent Monetary Policy?” in Tung Chen-yuan (ed.), *RMB Exchange Rate* (Yuan Jing Foundation), pp. 46–51.

¹⁷⁷ Ibid, Robert A. Mundell (2005).

¹⁷⁸ Ibid, Chen-yuan Tung (2005), p142.

¹⁷⁹ Ibid, Ji Zhou (2005), pp. 3–11-15.

¹⁸⁰ Siao- chuan Zhou (2003), “Zhou Siao Chuan Reduces the Pressure of RMB Appreciation”, *Beijing Start Daily*, 25 September 2003.

trade surplus will not increase so obviously.¹⁸¹ As more and more overseas MNCs gradually settle down in China, unlike previous stages, the FDI will not increase so rapidly. The Chinese government considers that advanced countries overestimate the RMB's influence and have unrealistic expectations about the effects of RMB appreciation. Fundamental economic problems such as the low saving rate in the United States are major factors to trade deficit.¹⁸² Moreover, the Chinese central bank is the major holder of American government bonds which provide the creditability for the US tax cutting policy and housing market. RMB appreciation will cause the reducing ownership of US government bonds, and the outflow of Chinese capital will force the Federal Reserve to increase the interest rate, which will risk a credit crunch and burst the housing market bubble.¹⁸³

Nevertheless, some economists think RMB appreciation brings advantages. The compromise of RMB appreciation will help prevent the Chinese government from international trade conflicts and economic sanctions.¹⁸⁴ The revaluation of the RMB will develop capability and flexibility of the Chinese government's financial sector and lower costs (money supply is considered a high cost measurement) to restore equilibrium in their national reserve – the measurement of RMB revaluation is not solely a narrow focus on reducing export loss, the Chinese government are greatly concerned about this issue.¹⁸⁵ The revaluation of the RMB will also alter the

¹⁸¹ Ibid, Hai Wen (2003), November 2003.

¹⁸² Paul R. Krugman (1994), "Competitiveness: A Dangerous Obsession", *Foreign Affairs*, Vol. 73, No. 2 (March/April 1994), pp. 28–44.

¹⁸³ Guo- zhong Xie, "Domestic Pressure of RMB Appreciation Disappear, but Bubble House Market still Exist", *21st Century Economy Report*, 28 March 2005.

¹⁸⁴ John Williamson (2002), *The Renminbi Exchange Rate and the Global Monetary System*, presentation at the Symposium on Central University of Finance and Economics, Beijing, 29 October 2002.

¹⁸⁵ Fan Yang (2005), *Perspective Exchange Rate* (Beijing: China Economy).

imbalance between export and non-export sectors.

4.3 The role of Taishang (Taiwan Businessmen in Mainland China)

The expansion of the Taishang (Taiwanese business) is another key feature of Cross-Strait business dynamism. Even though the relocation of Taishang is attributed to be the major reason behind Taiwan's economic recession, Taishang behaviour is still considered "economically rational" if it is defined as multi-national corporation (MNC) activity. The global economy populated by MNCs has been described as a "seamless web" in which there no longer are any purely national economies, corporations, or products.¹⁸⁶ MNCs are strategic players¹⁸⁷ who possess advantages of monopoly, ownership, technology, location and internationality over purely domestic corporations,¹⁸⁸ but cannot escape the product cycle.

International business is a value-chain of activities ranging from extraction to production to marketing. The R&D efforts such as a trademark or know-how (1. monopolistic advantages) give individual firms an efficient and reliable strategy to decide which and how many of these activities it wishes to pursue and in what locations around the globe, especially how MNCs can employ country-specific advantages such as access to low-cost skilled labour or to other special local resource (2. locational advantage). The strategy includes not only FDI (3. ownership advantage), but also strategic alliance, outsourcing of component production and licensing technologies. These corporate activities create international complexes or

¹⁸⁶ Robert Reich (1991), *The Work of Nations: Preparing Ourselves for the 21st Century Capitalism*, (New York: Knopf, 1991).

¹⁸⁷ Michel E. Porter (1990), *The Comparative Advantage of Nations* (New York: Free Press).

¹⁸⁸ John N. Dunning (1988), *Explaining International Production* (London: Unwin Hyman).

networks of corporate relations with the parent MNCs in its home economy (4. international advantages). Through modern information technology and monopoly of information resources, the MNC can become dominant over its domestic competitor, enjoy lower transaction costs, and be more able to pre-empt foreign competitors. (5. technological advantage) However, every product follows a life cycle from innovation through maturity to decline to eventual obsolescence.¹⁸⁹ During the initial phase of the product cycle, firms export new products from their home industrial base, but in time a number of negative changes occur associated with the maturing of the product, such as diffusion abroad of industrial know-how and stimulate the entry of foreign imitators into the market.

Table 4.4 explains how Taiwanese firms (Taishang) enjoy the five advantages discussed above when they go into the Chinese market. Especially in high-tech industries, Taiwanese manpower advantages in marketing, financing, and legal services help Taiwan to occupy a strategic position in China's technological development (1. monopolistic advantage). Major cities like Shanghai have become the main sites of this manpower cooperation and competition (2. location advantage). Since Taiwan has a flourishing semiconductor and computer industry, the CASPA (Chinese American Semiconductor Professional), one of the largest Chinese American semiconductor professional organizations outside Taiwan and China, had suggested the best policy for Taiwan to enter China market would be to create strategic alliances with major international semiconductors producers (4. international advantage). They also indicated that Taiwan, well equipped with venture capital (3. ownership advantage) and production capacity (5. technology advantage) could play the role of mediator to introduce international talent, and integrate human resources of the

¹⁸⁹ Raymond Vernon (1971), *Sovereignty at Bay: the multinational spread of US Enterprise* (New York: Basic Books), pp.65-76.

Greater China region with a global high-tech centre. One good example is the work of the Monte Jade Science and Technology Association, a Taiwanese government-supported association established in 1990. The major goals of Monte Jade have become to develop the Chinese market by introducing US technologies and Taiwanese capital.¹⁹⁰

Table 4.4: Taishang's MNCs Advantages

No	MNCs advantages		Taishang's advantages
1	Monopolistic	R&D efforts	Manpower
2	Location	Country-specific advantages	Major cities (i.e. IT in Shanghai)
3	Ownership	FDI	Venture capital
4	International	Corporate activities	Strategic alliances mediator
5	Technology	IT and resources	Production capacity

Source: Author's own compilation

As Krugman said, MNCs are not merely a substitute for trade; moreover, they attempt to extend their power and control over foreign economies. The MNCs' desire is not only to earn immediate profits, but also to change and influence the rules or regime governing trade and international competition in order to improve their long-term position.¹⁹¹ Some theorists consider that MNCs have become powerful independent actors rivalling and even outstripping the national state (shedding national identity, providing a public good, and making decisions without special

¹⁹⁰ Tse-kang Leng (2002a), "Economic Globalization and IT Talent Flows across the Taiwan Strait", *Asian Survey*, Vol. 42, No. 2, pp. 235–240.

¹⁹¹ Paul R. Krugman and Maurice Obstfeld (1994), *International Economics: Theory and Practice*, 3rd ed. (New York: HarperCollins).

reference to their home economy) due to global corporate planning, unclear ownership with equity sharing, joint ventures, corporate alliances, extensive outsourcing, and integration of production that are stateless and independent.¹⁹² Each MNC is a distinctive product of its home base and reflects its social, economic and political values. MNCs are actually deeply embedded in, and very much a product of, the history, culture, and economic systems of their home societies.¹⁹³

As typical MNCs, whether the closer Cross-Strait interaction (even integration) will motivate these business elites to negotiate their share in the political process (both Taiwan and China), the economic exchange with mainland will strengthen the island's democratic system, or the island's democracy will cause any impact on the mainland's political reforms due to the movement of Taishang who are considered as supporters of Taiwan democratic development are all interesting issues for a further investigation. Lin argues that Taishang play four kinds of political role as partner, lobbyist, agent and hostage.¹⁹⁴ As a "partner", especially in the major cities along the coast such as Kunshan, Dongguan, and Shenzhen, Taishang establish a "symbiotic" relationship with local bureaucracy, contribute to regional prosperity and competitiveness, and therefore enjoy having a voice of power and threat of withdrawal.¹⁹⁵ As a "lobbyist", according to Tung Chen-yuan's investigation, there are still no records showing that any Taishang's suggestion have been rejected by CCP

¹⁹² Ohmae Kenichi (1991), *the Borderless World: Power and Strategy in the Interlinked Economy* (New York: Haper Business), pp.11-12.

¹⁹³ Paul N. Doremus, William W. Keller, Louis W. Pauly, and Simon Reich (1998), *The Myth of the Global Corporation* (Princeton:Princeton University Press),p.17.

¹⁹⁴ Shu Keng and Choung –sheng Lin (2005), "The Political Role of Taiwan Businessmen in Cross Strait Integration", *Mainland China Studies*, Vol. 48, No. 1 (March 2005), p.5.

¹⁹⁵ Albert O. Hirschman (1986), *Rival Views of Market Society and Other Recent Essays* (New York: Viking 1986), pp. 90–107.

officials.¹⁹⁶ After the formation of the WTO, the gradual maturation of the market economy makes it more difficult for the Chinese government to implement its “selective sanction or incentives” if they treat Taishang as “hostage” or “agent”.¹⁹⁷ The Taiwanese Business Association (TBA) organized by Taiwan’s business community is even considered a quasi-interest group and to occupy the “fifth ranking of leadership”, ranking after the CCP party cadre, government officials, National People Congress (NPC) and National Committee of the Chinese People's Political Consultative Conference (CPPCC) representatives.¹⁹⁸ Winnie King analyzes Taishang’s political influence on the island’s democracy in three dimensions. She considered the economic exchange with mainland has made in strengthening commitments and loyalties to Taiwan as a nation and ethnicity (democratic values), securing and promoting the democratic institution (institutional stature and authority), and the role of civic actors in the policy making process. The three multi-level analytical dimensions is coincidentally compatible with the four-level analytical framework for a democracy created by the author in the last chapter. Especially in the institutional levels, King had carefully clarified the various political role of Taishang and their influence on the island’s democratic politics. In terms of establishment of a credible democratic institutions and policies, Taishang are consultants and information providers for the Mainland Affairs Council (MAC) and had actually successfully influenced the MAC’s priorities including the “Go South Policy” in 1994

¹⁹⁶ Tung, Chen-yuan (2003), *Cross Strait Economic Relations in Globalization* (Taipei: Sheng Zhi, 2003).

¹⁹⁷ Shu Keng (2006), “Taiwanese Identity, Found and Lost: Shifted Identity of the Taiwanese in Shanghai”, presented for the Conference on Political Economy: Dialogues between Philosophy, Institution, and Policy, Department of Political Science (Taipei: National Chengchi University, 27-28 September 2006).

¹⁹⁸ Ibid. Shu Keng and Choung-sheng Lin (2005), p. 17.

“Go Slow, Be Patient Policy” in 1996. In terms of legitimization of Taiwan’s democratic institutions, some of Taishang communities have established effective institutional framework (i.e. existence of informal or secret clubs) to interact with government offices (i.e. regular meeting between business leaders and high-ranking bureaucrats and party leaders) , and participation in democratic process (i.e. returning to vote; funding of parties and election candidates).¹⁹⁹

Nevertheless, the other scholars have different perspectives about the political role of Taishang and impact of this community. Schubert Gunter point out the political role of Taishang is quite limited and their influence on China’s political reform might be overestimated and too much expected. According to his sophisticated scrutiny during 2006-2008, Gunter found out even though Taishang are more interested in Taiwan’s domestic politics, they actually possesses a “situational identity” and avoids a public discussion or ideological debate with a Chinese about the issue of Taiwan sovereignty status. Meanwhile, due to the change of business climate and rapid centralized capital in mainland China , Taishang are becoming powerless both politically and economically. Taishang are not impossible as lobbyist, agents, or hostages for two hostile governments since the communities are actually apolitical (even anachronistic in sovereignty issue) pragmatic , not such a patriotic figures who only care more about how to earn more money, keep their position in process of economic globalization, and refrain from the heavy social pressure from Chinese society.²⁰⁰ Li Rui-hua questions the TBA as a strong organization according to political and social capital theories. Lin found that regardless of “collective action”

¹⁹⁹ Winning King, How Cross-Strait economics has strengthened Taiwan’s political system: the impact of economic actors, paper presented for the 2nd Annual European Association for Taiwan Studies Conference, Ruhr-Universitaet Bochum, 1-2 April 2005.

²⁰⁰ Gunter Schubert (2010), “ The Political Thinking of the Mainland Taishang :Some Preliminary Observations from the Field”, *Journal of Current Chinese Affairs* 1, pp.73-110.

for group interest or “particular ties “for personal rent seeking,²⁰¹ it is difficult for the TBA to create political capital, such as bargaining power, due to the gradual loss of economic superiority following the entry of stronger foreign MNCs into the Chinese market and the relatively weaker role of the Taiwan Affairs Office (Taiban) in the CCP authoritarian system. Like typical Chinese social behaviour, most Taishang are used to create personal connections rather than voluntary participation and social capital is helpful to reduce the transaction cost. The greater the social capital accumulation, the less the transaction cost, and vice versa.²⁰² There are also lots of “free riders” who share the “selective benefits” provided by the TBA, including information sharing, expression of needs and emergency assistance. The participation of these free riders therefore has weakened the TBA’s efficiency because most members will think the TBA is not capable to take care of the rights of their membership.²⁰³

China’s strategy of a “peaceful rise” actually provides MNCs another good international political environment for overseas expansion. As Robert Gilpin said, while economic factors are obviously important for the emergence and success of MNCs, they could not exist without a favourable international political environment created by a dominant power whose economic and security interests favour an open and liberal international economy.²⁰⁴ According to the earlier analysis in this section, China is by and large a “satisfactory international investment regime” for Taishang

²⁰¹ Edward J. Lopez (2002), “The Legislator as Political Entrepreneur: Investment in Political Capital”, *Review of Austrian Economics* 15 (June), pp. 211–228.

²⁰² Hsiao-tung Fei (1998), *Rural China, Institutions for Reproduction* (Beijing : Beijing University).

²⁰³ Shu Keng and Rui- hua Lin (2007), “Institutional Origins of Weak Associations: Taiwanese Business Associations in the Yangtze and Zhu River Delta”, *Taiwan Political Quarterly*, Vol. 11, No. 2, pp. 93–171.

²⁰⁴ Ibid, Gilpin, Robert (1987), p.288

which would have to embody several characteristics, including the rights of establishment, national treatment, and non-discrimination.²⁰⁵ The rights of establishment means that firms of every nationality have the right to invest anywhere. The principles of national treatment require that national government must treat the subsidiaries of foreign firms as if they were their own. The provisions of non-discrimination require that countries should not discriminate against the firms of particular countries, the national policy governing inward-FDI should be transparent, which types of national restrictions are legitimate and which should be prohibited. Nevertheless, political obstacles to the incorporation of Taishang into the mainland market in the name of “enemies of reunification” have occasionally happened in previous years. These events proved that national identity problems still work and the CCP authoritarian state occasionally interfere in the market, even though China always proclaims itself neutral with respect to the market mechanism.

4.4 Three effects of Cross-Strait economic interaction on Taiwan’s democratic development

The closer and rapid Cross-Strait economic integration influenced by the four structural powers in different dimensions mentioned in the above sections (international organization, trade policy, flow of RMB, and movement of Taishang) have caused the following three effects on the development of island’s democracy. The first and second effects concern the shape of new democratic values; the third effect produces a new social economic cleavage which is influential to the civil society.

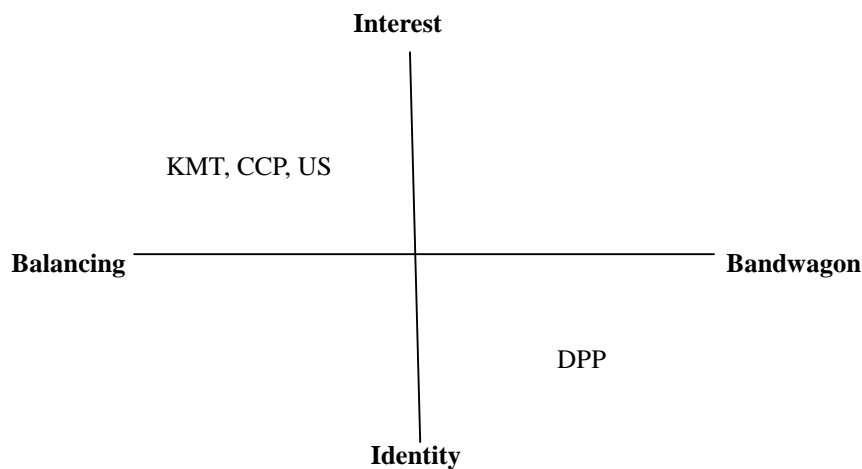
²⁰⁵ Sylvia Ostry (1997), *A New Regime for Foreign Direct Investment* (Washington D.C. Group of Thirty).

i. Cross strait economic issues have replaced national identity as a major issue for Blue–Green Competition

As Wu Yu-shan had pointed out, Cross-Strait relations are constrained by two major factors: external “power distribution” and internal “vote-maximizing”. The power distribution refers to the island’s foreign policy being generally hedged by two options: either “balancing” or “bandwagon” in the Taiwan–Beijing–Washington triangle. The “vote-maximizing” refers to the reasonable behaviour of every political party trying to maximize votes and win elections that will lead them to abandon their previous strongly-held positions (interest or identity) on mainland policy and instead move toward the policy centre. The analytical theoretical framework can be explained in Figure 4.1 and the four major political actors, KMT, DPP, CCP, and US (the republicans and liberals are hypothesized to have the same Taiwan policy) are located in two separate position in the quadrant. The KMT’s position is on the top left in that its mainland policy is relatively open, interest-orientated and copes with balanced Sino-US relations that ignore Taiwan’s de-facto sovereignty. The DPP’s position is on the bottom-right in that its China policy is conservative, identity-orientated, desirable and provocative to change the balance of Sino–US power distribution.²⁰⁶

²⁰⁶ Yu-shan Wu (1999), “Taiwan’s Mainland Trade Policy :Structure and Rationality ” in Pao Tzong-ho and Wu Yu- shen (1999) (ed.), *Debates on Cross Strait Relations Theory* (Taipei: Wunan 1999).

Figure 4.1: Two constraints on Cross-Strait relations: power distribution and vote maximizing



Source: Author's own compilation

Along with the growing asymmetric confrontation in international organizations and narrower Cross-Strait economic ties discussed in the former sections, Taiwan has become more powerless to do anything in international politics, but has increased opportunities to access economic benefits from Cross-Strait interaction. Moreover, people in Taiwan are tired of political party manipulation of ethnic differences which divide people into two clear political camps – blue and green.²⁰⁷ In other words, external power distribution and internal identity factors are not as influential as previously to further Cross-Strait relations. The interest incentives start to play a more important role in that Taiwanese people, for the time being, are becoming more pragmatic to growing Chinese political and economic power and are not willing to choose two contrasting ethnic identities,²⁰⁸ especially those young people with higher

²⁰⁷ Fuh-sheng Hsieh (2005), “ Ethnicity, National Identity, and Domestic Politics in Taiwan”, *Journal of Asia and Africa Studies*, Vol. 40, No. 1/2 (February/April 2005), p.13.

²⁰⁸ Shu Keng (2006), “Sense, Sensitivity, and Sophistication in Shaping the Future of Cross-Strait Relations”, *Issues and Studies*, Vol. 42, No. 4 (December 2006), p. 40.

education, professional superiority (especially IT and financial ability) and market competitiveness.²⁰⁹ In a word, one political tendency can be predicted in the future of Taiwan party politics: when the benefits brought by the cross-Strait economic interaction are not easily foreseeable, and cannot even satisfy the general public's expectations, the island's people will prefer to put the DPP back onto the front stage of Taiwan's politics, and the government's mainland policy will therefore become more conservative in the name of consolidating Taiwan's identity and democratic achievement.

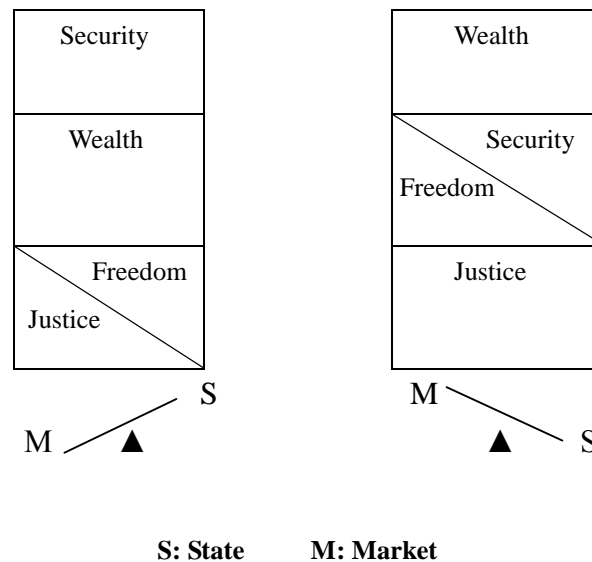
ii. The values of consolidating democracy would possibly be ignored when the cross economic integration goes too fast

According Susan Strange's interesting description about differing authority–market relationships in different societies, security, wealth, freedom and justice are four major societal values while ordering their own political economy. In different stages, different values will be given priority over others. For example, in Figure 4.2, when security is “in the seesaw nexus between authority and market, the seesaw tips the opposite way, the state interfering as little as possible with market force”.²¹⁰

²⁰⁹ Ibid. p. 47.

²¹⁰ Ibid, Susan Strange, (1994), pp. 5–6.

Figure 4.2: Different values priorities of political economy policy



Source: Strange, Susan (1994), *State and Market*, 2nd Edition, London, Pinter Publishers, p. 5

Obviously, Ma's administration policy orientation after the KMT returned to office in 2008 belongs to this type. The New KMT government had put the creation of wealth by advancing closer cross-Strait economic integration as the priority value over security, freedom, and social justice. Taiwan and China reopened the cross-Strait talks and a series of interactions, but at same time, produced other potential political and social problems, including sovereignty controversies (freedom), changed balance in Sino-US-Taiwan triangle relations (security), and a possible worsening of the island's social economic inequality (justice) which are all important factors which might be harmful to maintaining the island's democratic system. In order to get greater benefits from the mainland, the new government must have more compromise with the CCP including fewer diplomatic activities in international organizations and weaponry purchases from the United States.

- iii. **The rapid movement of Taishang would hollow out the island's economy and therefore expand the lower class base inside the island, even producing a homogeneous, isolated community, or an extremist anti-China group in the name of democratic consolidation**

As discussed in Chapter 3.5, there is already a new social economic cleavage between North and South Taiwan. Most people in North Taiwan are entrepreneurs, or professionals in technology and financial service departments, benefiting from cross-Strait economic interactions, and as a result favour the KMT's policy orientation, especially deregulating trade with and investment in China. People in South Taiwan turn to DPP because they are traditional working class and became victims when manufacturers were forced to move out to the mainland for the lower labour cost. Moreover, the minor urban and rural working classes mostly located in South Taiwan were at same time the most "deeply attached to a native Taiwanese identity" and "responsive to ethnic mobilization". A similar description can be also seen in Gordon Cheung's observation on the change of Taiwanese society:

The continuous investment by Taiwanese people in China is very likely divide the islanders into haves and have-nots . . . The have-not are those people who do not or could not invest in China . . . feel that their economic opportunities and international space have been restrained . . . The only power they have is their political vote, which has very often led to nationalistic overtones in Taiwan political discourse since mid-2000s.²¹¹

According to the modernization theory discussed in Chapter 3.1, an "elongated

²¹¹ Gordon C.K. Cheung (2010), "New Approaches to Cross-Strait Integration and its Impacts on Taiwan's Domestic Economy: An Emerging "Chaiwan?" *Journal of Current Chinese Affairs* 1/2010: 1–2, p. 22.

pyramidal” society with a large lower class base (homogeneous and isolated community), and even an extremist group, is the major characteristic of anti-democratic society. In a word, whether it is possible that Taiwan’s society will go in this direction owing to the rapid movement of business class is one of important and interesting issues for further research and investigation.

Chapter 5 Pre- democracy of Taiwan – under Two Chiang’s Control

Introduction

In this chapter, the researcher will try to review the democratic development history of the past sixty years, following the KMT’s (the nationalist government) flight to Taiwan in 1949. The historical discussion will be divided over two chapters: Chapter 5: Pre-democracy of Taiwan – Under Two Chiang’s Control; and Chapter 6: Democratic Transition under Two Taiwanese Presidents – Lee and Chen. The major reason this researcher has classified the historical process into two stages is the consideration that the democratic development of Taiwan obviously presents difference faces and stories between the two mainlanders’ leadership (Chiang Kai-shek, leadership 1949–1975; Chiang Ching-kuo, leadership 1975–1988) for almost 40 years and the two native Taiwanese presidents’ leadership (Lee Teng-hui, leadership 1989–1988; Chen Shui-bian, leadership 2000–2008) for 20 years. In each chapter, the discussion will follow the pattern of the analytical framework built in the theoretical chapters, and the researcher will endeavour to arrange the historical events to support and approve the validity of the theoretical framework. The major focuses will be each leader’s democratic values (level 1), how these leaders put their values into practice and build up the institutions they thought to be of priority, necessary and appropriate (level 2), the transformation of the island’s economy and society (level 3) and the external political economic factors during the process of these changes.

In chapter 5, the researcher will argue that even though Chiang Kai-shek and his son Chiang Ching-kuo are both criticized (as dictators, that the father only cared about the mainland’s recovery, and that the son’s real concern was how to maintain the power of the mainlanders’ KMT regime), it cannot be denied that some important

democratic institutions (i.e. local elections) had been launched during Chiang's tenure – especially the limited local elections begun in 1957 during the early KMT authoritarian control period. Chiang Ching-kuo is even considered as an unexpected reformer who successfully promoted the Taiwanization policy and showed high tolerance on the growth of opposition power. Along with the island's economic recovery after World War II and the later successful industrial upgrading and integration into the global world market, the series of political and economic reforms were actually helpful for reducing the tension of ethical conflict between minority ruling mainlanders and the local Taiwanese populace. It also provided the regime with a most important survival basis when Taiwan was forcibly expelled from the UN in 1970 and during the rapprochement of Sino-US Relations in 1980. Meanwhile, nothing is more important to the island's democratic development than the occurrence of middle class after successful economic development. This factor is also believed to be the major reason that there were not massive political riots when Chiang Ching-kuo decide to lift martial law and ended nearly 40-years of military–authoritarian control in 1987.

5.1 Chiang Kai-shek: dictatorship and KMT authoritarian control (1949–1975)

5.1.1 The émigrés regime and conflicts with local Taiwanese

The KMT regime retreated to Taiwan in 1949 and sowed the historical seed of Blue–Green conflicts over the following 60 years. The arrival of corrupt government officials and dispersed KMT troops from the mainland civil war launched a chaotic confiscation which made the conflicts between the new wave of immigrants in 1949 (about two million soldiers and civilians) and local Taiwanese residents (about six

million civilians) inevitable.²¹² In local Taiwanese people's eye, the KMT regime, led by Chiang Kai-shek, was nothing but defeated nationalist troops in the Chinese mainland civil war and a Leninists party machine for Chiang's personal dictatorship fleeing to Taiwan for a temporary refuge. Moreover, the first encounters with the mainlanders who arrived to replace the Japanese caused some Taiwanese to acknowledge that in many ways, especially in relation to the degree of modernization (education, urbanization, and rule of law); the Taiwanese were superior to the Chinese after five decades of Japanese occupation. Even though the Taiwanese suffered discrimination and restriction on their political power during the colonial period, most of them considered the Japanese occupation was a heritage and created positive consequences to the development of the island, especially the Japanese educational system and liberal ideas regarding economic policies.²¹³ The high level of education and political maturity supported Taiwanese demands for greater autonomy, but not outright independence until the KMT broke their expectation. Taiwanese people found that the KMT landing troops were ill-disciplined, poorly educated, and engaged themselves in scrounging and plundering the local community. Many of the mainland officials and their relatives who followed the ROC troops to Taiwan were equally interested in dominating government jobs, extracting the island's wealth and transferring confiscated Japanese property, but the KMT mainlanders' government was very incompetent when it came to solving the island's post-war economic problems.²¹⁴

However, on the other side, from the KMT's perspective, friction with local

²¹² Jia-xi Weng (2007), *The 228 Incidents and Taiwan Economic Development*, Taipei: Ju -Liu Publishers pp. 57–59.

²¹³ Maurice Meisner (1964), "The Development of Formosan Nationalism", in Mark Mancall, ed., *Formosa Today* (New York: Praeger), pp. 153–154.

²¹⁴ Ibid., Weng (2007), pp. 209–216.

people is inescapable, but not the most serious or urgent issue. The arrogant KMT landing troops considered themselves as the poorest victims and there was no need to have any respect or sympathy for local residents.²¹⁵ The island was just a “defeated enemy territory”, rather than a victim of Japanese imperialism. The Taiwanese had a patriotic duty to contribute to the subsistence of the KMT troops on the island and to the reconstruction of the mainland because the KMT had made frantic effort to move assets and property to Taiwan, including the national treasury – gold, silver and foreign reserve which contributed to the island’s economic stability – and in particular the printing of New Taiwanese Dollars to put into circulation.²¹⁶ Most mainlanders even thought the Taiwanese had been corrupted by Japanese thinking and Communist induction, despite the fact that the Taiwan Communist Party (TCP) members and activities had been destroyed by Japanese security forces and on the brink of extinction before the outbreak of World War II.²¹⁷ For the KMT itself at this moment, to survive the CCP threat, consolidate its control on the island, and reconstruct the shaky island agrarian economy as the military base for “a sacred mission to recover mainland China” was more important than relations with the local Taiwanese, let alone the establishment of democracy.

This high public disaffection set off the explosion of the 228 Incident on 27 February 1947 – the first large-scale turmoil and violence since the KMT émigré

²¹⁵ Interview with Ze-ren Lee, 1 June 2008. Mr. Lee is author’s father, who was also a member of the KMT landing troops in 1949.

²¹⁶ Hua-yuan Xue (ed.) (2009), *Taiwan Trade History*, published by Taiwan External Trade Development Council (TETDC), p. 221.

²¹⁷ Xiu-yi Lu (2006), *The History of Taiwan Communist Party in Japanese Colonial Period*, Taipei: Avanguard Publishing House, pp. 135–140.

regime took over the island.²¹⁸ To make matters worse, in the name of eliminating the “traitors” and “collaborators” of Communist subversion, the KMT crushed most of the local Taiwanese elites – who were suspicious as the potential leadership of future local democratic and Taiwanese nationalist movement. According to the ROC government official statistics in 2004, there were 681 people killed, 177 missing, the total number of deaths was 858 (including mainlanders),²¹⁹ even though there were still many different estimates of the number that the Taiwanese killed in the “massacre”, perhaps even thousands.²²⁰ No matter what the exact number of deaths was, the incident had actually caused severe damage to relations between the Taiwanese and the mainlander-dominated ROC government. The incident continued to be the KMT’s nightmare, even after the democratization of 1990 – to mitigate the disaster of the 228 Incident the KMT were under obligation to make an apology and provide compensation. The incident also provided the local Taiwanese with the best reason, perhaps even the privilege, to strive for greater political power.

²¹⁸ The 228 Incident, also known as the 228 Massacre, was an anti-government uprising in Taiwan that began on February 27, 1947, and was violently suppressed by the Kuomintang (KMT) government. Estimates of the number of deaths are controversial and vary from 10,000 to 30,000 or more. The Incident marked the beginning of the Kuomintang's White Terror period in Taiwan, in which thousands more local Taiwanese vanished, died, or were imprisoned. The number "228" refers to the day the massacre began.

²¹⁹ The Memorial Foundation of 228, “The Statistic of Victim in the 228 Incident in County and City”, online at: http://www.228.org.tw/pay228_statistics_case.php.

²²⁰ Regarding different estimates of how many Taiwanese were killed, please refer to Table 8-3 in Jia-xi Weng (2007), *The 228 Incidents and Taiwan Economic Development*, Taipei: Ju -Liu publishers, p 173.

5.1.2 The experience of failure in the civil war, and KMT's reforms

The mistakes in the mainland civil war provided the KMT the lessons by which to implement a series of political and economic reforms. The KMT attributed its failure to the weak social basis such that party control in the mainland only reached landlord level, which was easily overthrown by the Communist rebellion. Meanwhile, the cooperation between the KMT administration and the bourgeoisie in the city was notorious for widespread corruption and nepotism. Therefore, the KMT started to reconstruct the party by employing thorough KMT organizational reform and development of an intricate KMT party network presence at the grassroots level and in all sectors of society (i.e. military, union, farmers association, professional organizations and educational institutions). The party also recruited local Taiwanese as party members, especially the elites and intellectuals.

The nightmare of mobilized and agitated peasants in the Communist military rebellion in the mainland civil war prompted the KMT to undertake land reform and resettle the retiring tens of thousands of old soldiers. From 1949 to 1953, three stages of land reform programmes, named “375 farm rents” (1949),²²¹ “sales of public farm lands” (1948–1951), “land-to-the-tiller” (1953),²²² were put into action by the KMT government and later had affected one-quarter of the island’s cultivated land, with a majorly positive effect on reducing the disparity of income and improving living conditions in rural areas.²²³ Meanwhile, the government controlled the

²²¹ The 37.5% Rent Reduction Act has been carried out since 7th of June, 1951. It is beneficial to tenants. It provides a minimum civil living standard for tenants. Later the Act was amended to add “compensation to tenants”(equivalent to one third land value)when the lease contract is terminated. The landlords are not satisfied it.

²²² Cheng Chen (1963), *Land Reform in Taiwan*, Taipei: China Publishing Company.

²²³ Martin M.C. Yang (1970), *Social –Economic Results of Land Reform in Taiwan*, Honolulu:

peasants politically by the Farmers' Association, and economically by the rice–fertilizer barter.²²⁴ The government organized peasants and rural residents into 340 KMT-controlled farmers associations, which offered credit, introduced technology, supplied inputs and served as marketing cooperatives.²²⁵ The state squeezed agriculture to feed the huge urban population, to supply materials and funds for later industrialization,²²⁶ and to sell its products abroad to earn hard currency.²²⁷ In 1955, the government established the Vocational Assistance Commission for Retired Servicemen, charged with training and resettling demobilized old soliders and caring for those who were ill. Able-bodied retirees found themselves engaged in major infrastructure construction – creating highways through rugged mountain terrain, opening up virgin farmland, building factories and so on.²²⁸ The measurement made a contribution to pacify the immigrant mainlander soldiers and to ease possible tensions between them and the local Taiwanese. The surrendered number and the defectors from the KMT troops were generally believed to be a contributory factor as to why the CCP could easily defeat the KMT in the Chinese civil war in 1949.

The land reform programme was later proved successful; not only it was one of the most ambitious land redistribution programmes in history, but also it brought important a socioeconomic boost without the bloodshed that often accompanies

East–West Centre Press, pp. 313–351.

²²⁴ You-zhao Wang (1971), “The Review of Rice- Fertilizer Barter “, *The Issues of Taiwan Agricultural Development*, Taipei: Joint Commission on Rural Reconstruction (JCRR) publishers, p.79.

²²⁵ Ibid. Yang (1970), pp. 407–411.

²²⁶ Hsin-huang Hsiao, “Changes in State Agricultural Strategies in Taiwan: 1953-1982”, *Thought and Word*, Vol. 20, No. 6, p. 17.

²²⁷ Shi-yong Chen (2000), “US Aid and Forest Protection in Taiwan, 1950–1965”, *The Case Studies of US –ROC Relations*, Taipei: Dao-Xiang Publishers, pp. 153–163.

²²⁸ Veterans Affairs Commission Executive Yuan, ROC, *History, Mission and Function of VAC*, online, at: <http://www.vac.gov.tw/content/index.asp?pno=54>

large-scale land redistribution. The task was eased by the comparative lack of opposition by the local political powerful elites who had been a major obstacle to other countries but were eliminated by the KMT in post war Taiwan. Meanwhile, the KMT allowed elections for representatives to the farmers association that gave ordinary people in Taiwan additional experience in grass-roots democracy and would hasten the pressures on the KMT to liberalize the political system as a whole.²²⁹

The series of reforms did not include party democratizing, but the limited democratization began with elections for members of the Taiwan Provincial Assembly, and county mayors and magistrates were promoted from 1951. These democratic institutions were quite significant for Taiwanese democratic development, and provided the local Taiwanese with limited political participation while helping the KMT to ease tensions with society – which was advantageous for peaceful and incremental changes in the later democratization in 1980.²³⁰ The KMT still insisted on its one-party authoritarian control and the 1947 ROC constitution. The KMT invoked three basic laws made in the three years before they fled to Taiwan (1947 ROC constitution, 1948 Temporary Provisions Effective during the Period of Mobilization for the Suppression of the Communist Rebellion, and 1949 Martial Law) to consolidate Chiang's dictatorship. The enactment of emergency orders (martial law) was the provision of the constitutions to fit the unusual circumstance of Taiwan's standoff with the CCP-dominated mainland. The KMT reform reflected the typical problems of a missionary party: the KMT believed itself as the only vanguard to make China (of course including Taiwan) independent from the invasion from the West and

²²⁹ John H.C. Fei, Gustav Ranis, and Shirley W.Y. Kuo (1979) (ed.) , *Growth with Equity: The Taiwan Case* (Washington, DC: International Bank for Reconstruction and Development, 1979), p. 38.

²³⁰ Bo-shu Zhang (2008), "The Lessons of Taiwan 's Democratic Transition and Political Modernization on Constitutional Reforms in Mainland China", *The Research on Possibility of China Constitutional Reforms*, Hong Kong: Chen Zhong Publishers 2008, p. 10.

to establish the necessary preconditions – including national autonomy, material prosperity, and the mass public understanding and respect for democratic institutions – for successful democratization.²³¹

However, paradoxically, a period of dictatorship under the KMT was necessary to build up these conditions even though the party itself usually becomes a major obstacle when democracy is promoted. The early post-war KMT believed themselves to contain a germ of democracy. The KMT under Chiang Kai-shek retained the goal of democracy and defined it as anti-Communism, fighting corruption, educating the mass public, and protecting the freedoms of religion and academic discussion. However, ironically, the features of the Leninist party system, including the one China patriotic disclosure, personal worship, emergency orders, intricate party network and huge and expensive military establishment made the KMT look and feel more like its purported enemy, the Communist dictatorship.²³² In fact, the experience of failure in the mainland civil war and the 228 Incident made the KMT in 1949 become more confused, conservative, and refuse to negotiate with any dissention or political groups. The KMT attributed the political consultative mechanism to be one of the major reasons for the CCP's successful rebellion allowing the CCP to delay the KMT's efficient suppression by making use of negotiations in name of democratic consultation. The KMT's authoritarian control during this period is also a typical case in Chinese history that strong men can overthrow the rule of law in the name of

²³¹ According to the theories of KMT's ideology, the Three Principle of the People (San-min Chu-i), democracy is the eventual goal and the KMT should have withdrawn its control on society after the political order settled down. The role of the KMT is as a revolutionary vanguard whose mission is to safeguard (military period) train people (tutelage period) to exercise their political power including four civil rights (election, recall, initiatives, and referendum) before the constitution is on the road.

²³² Steven J. Hood (1997), *The Koumintang and the Democratization of Taiwan*, (Boulder, CO: West-view Press), p. 29.

national security and social ability. Even though the KMT started to face external diplomatic setbacks and internal challenges of a growing Taiwanese consciousness in the late 1970s, the KMT still believed that successful economic development and prosperity on the island were more important than any social justice and the best way to maintain both the KMT's legitimacy and the minority mainlanders' privileges. Authoritarian control was the only method to achieve those objectives.

5.1.3 The Cold War and the ROC expulsion from UN

The KMT learnt a lot of lessons in the Chinese civil war which they used in their initial control of Taiwan, however, at the same time the KMT's failure brought a larger crisis from its most important international allies – the support of the US. Washington gradually lost the confidence in Chiang's leadership and attributed the loss of the civil war to the KMT's corruption and incompetent governance. From Washington's perspective, the ideal scenario was a separated Taiwan under a US-allied, non-Communist ruler other than Chiang.²³³ Ultimately, Washington hoped to improve relations with China and draw Beijing away from the Soviet Union. Washington paid more attention to Taiwan's geographical strategic importance than Chiang's ROC subsistence. Washington even thought about placing Taiwan under a UN trusteeship, supporting a coup d'état to replace Chiang with a leader Washington perceived as more competent and respectable.²³⁴ Nevertheless, the outbreak of the Korean War and the large scale PLA participation in June 1950 caused the overnight

²³³ Nancy B. Tucker (2005), "Strategic Ambiguity or Strategic Clarity", *Dangerous Strait: the U.S. –Taiwan –China Crisis* (New York: Columbia University Press), p.189.

²³⁴ "An inside story of the U.S. five plans to alienate Taiwan from China after 1949", [www.huaxia.com, http://big5.huaxia.com/thpl/jwgc/2009/01/1282011.html](http://big5.huaxia.com/thpl/jwgc/2009/01/1282011.html).

reversal of US policy toward Taiwan. The Truman administration ordered the US Navy Seventh Fleet to protect Taiwan and guarantee Taiwan protection through US military deployment.²³⁵ In December 1954, Washington and Taipei signed the Mutual Defence Treaty; due to the first Taiwan Strait Crisis, Chiang wanted a public commitment of assistance from the US government in defending the remaining ROC-held islands when 100,000 PLA troops moved to the Fujian coast and the captured Yi Kiang Shen, just eight miles from the Dachen.²³⁶ On 23 August 1958, the CCP launched an intense artillery bombardment (known as 823 Artillery Bombardment)²³⁷ on Jinmen and later provoked the United States to use nuclear weapons against China. The crisis passed in November 1958 after Beijing announced that the PLA guns would shell Jinmen only on odd-numbered days, before the deterioration of Sino-Soviet relations in the late 1960s and China's successful development of atomic bombs in 1965 during the Vietnam War.²³⁸ Within the larger context of "the global anti-Communist crusade", the KMT was lucky to become one member of America's front line allies²³⁹ and the relationship between the US and the

²³⁵ Ta-jen Liu (1997), *U.S-China Relations, 1784-1992* (New York: University Press of America, Inc.), p.204.

²³⁶ Ibid., Liu (1997), pp. 220-224.

²³⁷ The Second Taiwan Strait crisis started with the *823 Artillery Bombardments* at 5:30PM on August 23, 1958, when People's Liberation Army forces began an intense artillery bombardment against Quemoy. ROC forces in Quemoy dug in and returned fire. In the heavy exchange of fire, roughly 2,500 ROC troops and 200 PRC troops were killed. The battle was a continuation of the First Taiwan Strait Crisis, which had started immediately after the Korean War. Chiang Kai-shek had begun to build on the two islands of Matsu and Quemoy. In 1954, PRC began firing artillery at both the islands of Quemoy and Matsu focusing most of the attack on Quemoy.

²³⁸ John W. Garver (1997), *The Sino-American Alliance: Nationalist China and American Cold War Strategy in Asia* (Armonk, N.Y. Sharpe 1997), p.213.

²³⁹ Huan-gui Guo (2005), "US-Taiwan Issues", *The future of Taiwan: International Politics and Taiwan Issue*, pp.87-88, Taipei: Zhi-Liang Publishers.

KMT government was quite ambiguous but pragmatic. The US–ROC defence commitment made it more difficult for Washington to concede Taiwan to the PRC, and was advantageous for the KMT in respect of gaining prestige for its leadership and control on the island.²⁴⁰ For Washington, the United States needed a stable ally, but it was constrained by its ability to soften the KMT dictatorship. Washington worried about “Finlandization of Taiwan”, that Taipei would threaten to sacrifice its own sovereignty with the opposing USSR and therefore cause an impact on US allies like Finland did in 1948.²⁴¹ However, the US assistance did not mean Washington supported Chiang’s plan to recover mainland China, a precondition for the United States to support Taiwan was that the island should keep a neutral status (no independence, no reunification with China).

The stable relations between Taipei and Washington were only to last until 1970 when the Sino-American rapprochement resulted mainly from both countries seeking support against their common adversary: the Union of Soviet Socialist Republics (USSR).²⁴² This rapprochement also opened a floodgate of diplomatic recognition of Beijing, because while the argument of the international community for seating the PRC rather than the ROC in the UN was based on the fact that the CCP had effective control of the territory of mainland China and represented the voice of hundreds of millions of Chinese people was gradually popular,²⁴³ Taipei only relied on US support. The CCP also made use of this opportunity to seek diplomatic breakthrough of the international isolation. Beijing established normal relations with several other governments without requiring them to sever relations with the ROC; however, in

²⁴⁰ Ibid. John W. Garver (1997), p.54.

²⁴¹ Ibid. John W. Garver (1997), p.126.

²⁴² Ibid. Liu (1997), pp.285-89.

²⁴³ Chinese Institute for International Affairs, *China and the United Nations* (New York: Carnegie Endowment for International Peace 1959), p. 258.

contrast, Taipei's diplomatic policy appeared to be inflexible and emotional; Taipei refused to accept any bilateral recognition and proclaimed that the KMT government legally represented China and still enjoyed jurisdiction over the mainland. Except for the dramatic loss of diplomatic relations with 38 countries, Taipei's stubborn insistence paid the biggest price in 1971, when a resolution was proposed by Albania to expel the ROC and allow the PRC to occupy the Chinese seat. The resolution was successfully passed by a General Assembly vote of 76 to 35, when most US allies saw no further need to oppose China's entry into the UN because Taipei rejected the idea of dual representation as suggested by Washington – the ROC's only chance to avoid being ousted.²⁴⁴

5.1.4 Economic recovery and changed social class

Chiang Kai-shek's dictatorship during this period was generally criticized as a kind of "White Terror",²⁴⁵ in addition, the foreign setback and ethnic problems of

²⁴⁴ Guo pointed out that before the ROC was expelled from the UN, there were seven occasions that Taipei could have kept the seat if Chang Kai-shek could accept dual representation, but all were rejected by Chang's stubborn insistence on the "One China Principle". For more details, please see Guo Zheng-liang, "Chang Xiao-yan Always Stands on the Wrong Side of History, Opposing the ROC Return to UN in the Name of Taiwan", online at: http://kuojulian.blogspot.com/2007/12/blog-post_28.html, accessed 28 December 2007

²⁴⁵ White Terror is the violence carried out by reactionary (usually monarchist or conservative) groups as part of a counter-revolution. In particular, during the 20th century, in several countries the term *White Terror* was applied to acts of violence against real or suspected socialists and communists. In Taiwan, the "White Terror" refers to the suppression of political dissidents under the martial law period from May 19, 1949 to July 15, 1987, following Kuomintang's retreat to Taiwan and start the authoritarian control on the island. It resulted in part from 228 Incident and included later repression of democrats, communists and Taiwan independence supporters. (The incident and condition had been mentioned in the first two sections of this chapter)

tense mainlanders–Taiwanese conflicts mentioned above had caused a potential crisis and instability of the Taiwan society. However, in other perspectives, the KMT’s authoritarian control during this period was advantageous for the development of the island’s economy. First, except for military protection, the US also provided several economic aid programmes to help the KMT government to maintain their giant military machine, which was consuming an average of 85 per cent of the national government’s expenditure. In 1950, Taiwan became the second US military aid recipient country in the world.²⁴⁶ In the 15 years from 1951 to 1965, Taiwan annually received an average of \$100 million of non-military aid which provides about 40 per cent of the ROC’s capital formation.²⁴⁷ American aid during this period accounted for more than one-third of Taiwan’s total investment and 74 per cent of all investment in agriculture.²⁴⁸ Moreover, 50 per cent of government expenditure relied on US Aid,²⁴⁹ and only 33.3 per cent of US aid was applied to the development of state–private cooperation (27.2 per cent) and private enterprise (6.1 per cent, also mainly in agriculture).²⁵⁰ The government made use of this money mainly in the building of infrastructure and investment in state-owned industry (electricity power, public transportation and mining). In fact, the US Aid was not only in the form of financial grants (even though that was over 80 per cent of its make up) and the ROC

²⁴⁶ International Economy Cooperation and Development Association, “US published the military aid in the past ten years”, *International Economy Data Monthly*, Vol.4, No.6 (1960), pp.104-5.

²⁴⁷ Peter Chen-main Wang (1999), “A bastion Created, A Regime Reformed, An Economy Reengineered, 1949-1970,” in Murray A. Rubinstein, ed., *Taiwan: A New History* (New York: M.E. Sharpe, 1999), p.328.

²⁴⁸ Neil H. Jacoby (1966), *U.S. Aid to Taiwan* (New York: Praeger, 1966), p.38.

²⁴⁹ Itowaku (1992), “Financial system and Capital Raise”, in *The Formation of International Processing Export Processing Base*, Taipei: Ren Jian Publishers, 1992, p.61.

²⁵⁰ Zhi-huai Zhou (1990), “Essays on Taiwan State-Owned Enterprise and change of its role”, *Journal of Taiwan Studies*, No.2, Beijing: Chinese Academy of Social Science Publishers, p.38.

government was not required to repay. The US Aid also included commodity imports, loans and technical assistance. From 1950–1961, imported commodity goods – mainly the basic necessities (wheat, cotton, fertilizer, oil, soy beans) – cost \$827 million in which the US import cost was \$502 million (61 per cent).²⁵¹ It was also very helpful to ease inflationary pressure and the balance of international fiscal revenues and expenditures (Taiwan imported extensively while exporting little more than rice and sugar, resulting in a large trade deficit and a lack of foreign currency reserves). According to Jacob’s analysis, without American aid, the economic growth rate in Taiwan between 1951–1965 might only have been 3.5 per cent, rather than the actual 7.6 per cent.²⁵² Shirley Kuo considers that US Aid was an indispensable factor to the Taiwanese economic recovery after World War II. Without American aid, the GNP in 1965 was estimated at only 60 per cent of real production and employment was only 85 per cent of actual estimation.²⁵³

US aid to Taiwan ceased in 1965, but Taiwan had gained a reputation as a model of a US aid recipient. Washington considered Taiwan had already stood up and was economically capable to defeat the Communist threat, even though Taiwan was unwilling to accept Washington’s unilateral cutting off the assistance.²⁵⁴ The US aid did not only contribute to the island’s economy materially, but also contributed to the further push of the development of privatization, entrepreneurship and openness to foreign investment. The US advisors and their suggestion and guidance could be

²⁵¹ Ibid., Hua-yuan Xue (2009) (ed.), p. 253.

²⁵² Ibid., Neil H. Jacoby (1966), p. 53.

²⁵³ Shirley W.Y.Kuo, Gustav Ranis, and John C. H. Fei (1981), *The Taiwan Success Story: Rapid Growth with Improved Distribution in the Republic of China, 1952–1979* (Boulder, CO.: West-view Press, 1981), p. 65.

²⁵⁴ Xin-ying Wen, *Behind the Economic Miracle: The Political Economic Analysis of US Aid in Taiwan, 1951–1965*, Taipei: Zi-Li Evening News, 1989, p. 104.

considered as another kind of indirect control and interference on the economic reforms which meant the KMT government did not have the final say over its policy. For example, the Chinese members, fluent in English and American-oriented, carried the ideology and methods learned from the Council of US Aid (CUSA) experience into their leadership of Taiwan's economy over the subsequent decades. In fact, the political leaders, notably Chiang Kai-shek and Premier and later Vice President Chen Cheng became more chastened, intervened less and gave greater scope over economic policy making to these Western-trained experts.²⁵⁵

From 1953 to 1964, the KMT government implemented three Four-Year Economic Plans: The first (1953–1956) and second plans (1957–1960) related to the applications for AID monies; the third plan (1961–1964), incorporated the Nineteen-Point Programme of Economic and Financial reforms implemented 1958–1960 and the Statute for Encouragement of Investment made in 1960, and was intended to speed up economic development, push Taiwan toward graduation from foreign aid, and promoted exports and created a business climate to stimulate private, local and foreign investment.²⁵⁶ The most significant economic transformation on the island during this time was shifted from an import-substitution strategy to an export orientation.²⁵⁷

Even though the KMT government still worried that the series of reduction of control would pose a potential danger to hard-won price stability, brings back inflation, and evaporate the scarce foreign exchange, they did not have confidence and

²⁵⁵ Thomas B. Gold (1986), *State and Society in the Taiwan Miracle*, (Armonk, N.Y.: M.E. Sharpe, c1986), pp.67-68

²⁵⁶ K.T. Li (1988), *The Evolution of Policy beyond Taiwan's Development Success*, New Heaven: Yale University Press, p.136.

²⁵⁷ Tien-shou Chen and Tai-shan Tsai (2009), *The History of Economic Development in Taiwan*, Taipei: Lan-Tai Publishers, p.221.

questioned whether the rise in trade would increase the island's vulnerability to the global economy. Would an overcrowded island with a small domestic market, limited industry, no resource and a precarious political culture successfully attract foreign and local capital ? It was considered as a practical to establish the island as an offshore assembly of American firms, the new investment climate had comparative advantage in lower labour costs but high efficiency, helping Taiwan to competitively establish global parts-and-components manufacturing ability, and therefore enter the emerging international division of labour at the bottom end of the product life cycle.²⁵⁸ The government took another important step to solicit FDI and further integrate Taiwan's economy with the global one. In 1965, the Executive Yuan promulgated the Statute for the Establishment and Management of Export Processing Zone and selected a plot of reclaimed land in the harbour of Kaohsiung, a port city in the south of island. Investing firms, both foreign and local, enjoyed tax incentives and avoided import duties on equipment and parts as long as they exported all that they manufactured or assembled.²⁵⁹ In the same year, the government increased the number of years of compulsory education from six to nine, and all primary education was publicly subsidized. This measurement enhanced the training and development of technical expertise and skilled labour.²⁶⁰ The external environment was also advantageous for the island's development. The relaxation of cold war tensions facilitated the general expansion of world trade. In the middle of the 1960s, the Cultural Revolution erupted and sealed China off from the rest of the world, strengthening Taiwan's position. The

²⁵⁸ Jing-han Fei, "The Evolution of Taiwan's Economic Development", *The Essays on Taiwan Industries Development*, pp. 115–116.

²⁵⁹ Zhen-ou Ge, *The Establishment of Export Processing Zone*, Taipei: Lian Jing Publishers, 1983, pp. 51–52.

²⁶⁰ Jia-qi Mao (2001)(ed.), *The Hundred Years of Vicissitudes-The Party History of the KMT*, Xia Men: Egret River Publishers, 2001, p. 1031.

outbreak of the Vietnam War made Taiwan the US troops' destination for rest and recreation. In order to purchase agricultural and industrial commodities, use military facilities and depots for repair of equipment, the US pumped vast amounts of foreign currency into the island economy.²⁶¹ The gradually expanding scope for private enterprise and the government commitment to industrialization released the latent productive forces on the island.²⁶²

The initially successful growth of economic development and improved physical quality of life made the local Taiwanese people become apolitical and apathetic to public affairs. They were too busy in changing their life to think about politics, fearful of any instability or political change which would risk their hard earned material gains.²⁶³ The KMT regime made use of this popular mentality and social psychology to skilfully separate the economy from the politics. The strategy based its legitimacy on its ability to promote economic growth, create commonality of interest with the new capitalist class, while repressing labour and squeezing agriculture. The minority mainlanders were over-represented in prestigious business positions, larger enterprises, state-owned industries and utilities. They also dominated as government bureaucrats, university professors and principals of elementary and middle schools. The majority local Taiwanese were generally discriminated against in respect of hiring and promotion, but gradually predominated as owners of agricultural lands and controlled many small and medium-sized businesses. The situation did not change until the democratization in 1980.

²⁶¹ Ibid., Thomas B. Gold (1986), p.84.

²⁶² Ibid., p.71.

²⁶³ Ibid., p.90.

5.2 Chiang Ching-kuo: political reforms and Taiwan economic miracle (1975–1988)

5.2.1 An unexpected supporter of reform

Chiang Ching-kuo was appointed as Premier of the Executive Yuan in 1972 – three years before the death of his father – and took the presidency in 1978. According to an interesting popular investigation, Chiang Ching-kuo is considered as the most influential leader with great contribution after 1949 by Taiwanese people.²⁶⁴ Unlike his father's authoritarian dictatorship which enjoyed complete US military protection and economic support but only cared about recovering mainland China, Chiang Ching-kuo faced an unprecedented series of major challenges from the dramatically changing international environment, including two serious energy crises in 1973–1974 and 1978–1979, the successful PRC atomic bomb test in 1964, and the establishment of formal diplomatic relations between the US and the PRC in 1978. Chiang Ching-kuo was pragmatic and soon realized there was less hope for the KMT regime to return to the mainland and it was urgent to build up Taiwan as a permanent territory rather than a temporary military base. He started to implement a series of political reforms and economic plans including the Taiwanisation of political decision making bodies, pluralisation of the political system and his famous “Ten Major Development Projects”. The political reforms justified the KMT's relations with local Taiwanese society, strengthened the KMT's autonomy and further eased the minority mainlanders' governing crisis. The “Ten Major Development Projects” and a series of later economic plans strengthened the island's infrastructural foundation, upgraded the

²⁶⁴ “TVBS Survey: most Taiwanese people cherish memory of Chiang Ching -kuo”,
http://www.tvbs.com.tw/news/news_list.asp?no=keri20030113181219.

industry, and helped the economy to ride out the economic crisis.

Chiang Ching-kuo's background and experience made him an unexpected supporter of reform, and his decision was surprising to both his inner circle and the general public. Before he succeeded his father as ROC president, he was often given difficult assignments that reflected a high degree of trust.²⁶⁵ Based on his background – supervisor of the commissar system in the armed forces, head of the internal security network, founder of a youth “anticommunist” organization that indoctrinated and spied on young people, and defence minister – “Junior Chiang” seemed a not unlikely reformer.²⁶⁶ However, he soon showed his favour towards giving the Taiwanese and younger mainlanders more positions of responsibility in the party and the government. Chiang favoured technocrats, particularly those with higher education from overseas. Chiang had also on several occasions stressed the importance of building a clean government; he strictly prohibited corrupt relations between bureaucracy and the business community, ruling that any government officials or civil servants would be downgraded or fired if they were found in bars or nightclubs or hosting excessively costly wedding banquets. Chiang said that he favoured human rights – he even proclaimed a human rights year in Taiwan in 1976 – but needed to protect public order under the unusual circumstance of the Communist Chinese threat that required the restriction of some civil liberties. In the summer of 1975, under Chiang's direction, the Legislative Yuan passed a law granting clemency to 3,600 prisoners, many convicted of political offences.

²⁶⁵ Ibid., Bo-shu Zhang (2008), pp.14–15.

²⁶⁶ Ibid., p. 16.

5.2.2 Taiwanisation policy and tolerance on opposition

Chiang's Taiwanisation policy consisted of two major parts: recruitment of local born Taiwanese talents for the party machine, and nominations of local born Taiwanese for high government positions. At the party level, the locally born Taiwanese membership of the KMT reached 67.23 per cent in 1980; the local Taiwanese representatives of the KMT Central Committee (CC) increased from 9.3 percent after the Tenth Party Congress in 1969 to 20.7 percent after the Twelfth Party Congress in 1981. In the highest decision making organizations of the party, the Standing Committee of the KMT Central Committee, the local Taiwanese members increased from 3 out of 21 (14.29 per cent) in 1972 to 12 out of 31 (38.7 per cent) in 1984.²⁶⁷ The nomination of local born Taiwanese as the higher government officials both in the central and local levels was more symbolic: In the executive Yuan, there were only 3 Taiwanese of 19 cabinet members in 1972. In 1986, there were already 7 out of 19, increasing from 15 per cent to 46 per cent. The governor of the island province and mayors of Taipei and Kaohsiung cities have, since 1972, all been locally born Taiwanese.²⁶⁸ On the other side, under Chiang's support, the political system was gradually pluralized and therefore provided local Taiwanese with another kind of official channel for political participation. In fact, since 1954, in the provincial level, the county mayors, magistrates and Taiwan Provincial Assembly were already elected by the people, and opposition known as "Dangwai" had a certain degree of support. After the election in 1972 when the KMT took over the whole 20 seats of county mayors, the opposition got an average of 4 seats in the regular quadrennial election up

²⁶⁷ The author took the notes when visiting the KMT Party Bureau on September 23 2009.

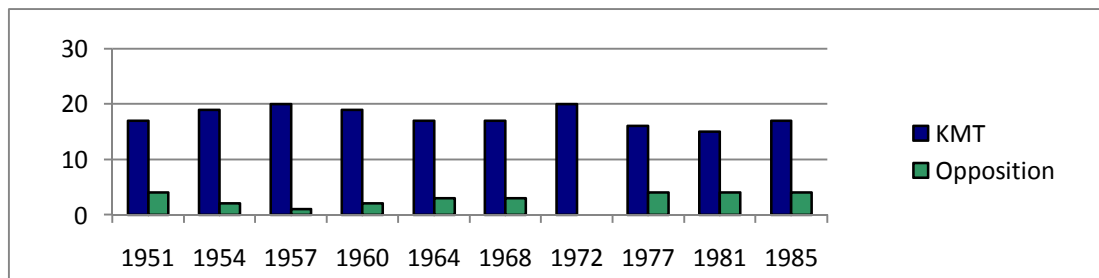
²⁶⁸ George Tsai Woei and Peter Yu Kien-hong (2001), *Taiwanisation : Its origins and Politics* (World Scientific Publishers; Singapore University Press), p.32.

to 1985 (the last quadrennial election in Chiang Ching-kuo's term of office) (Figure 5.1). In the Provincial Assembly Election, the opposition increased its seats from 11 seats in the beginning to 17 seats in 1985, with a maximum of 21 in 1977 (Figure 5.2).²⁶⁹ At the central level, when Chiang had become the Premier of Executive Yuan in 1972, he started to rapidly renew the central legislative bodies by increasing the members of the National Assembly and the Legislative Yuan. In 1969, the first time by-elections were held, there were only 15 National Assembly Delegates and 11 legislators who were elected from the local Taiwanese constituency; in 1986, there were already new 100 seats in the Legislative Yuan and 84 new seats in the National Assembly from the direct election (Figure 5.3). The KMT won 79 seats in the Legislative Yuan and 68 in the National Assembly; the opposition, majorly the Democratic Progressive Party (DPP) Candidates, won 21 in the Legislative Yuan and 16 in the National Assembly.²⁷⁰ Compared with those 1,141 National Assembly Delegates and 396 Legislators who were elected in Nanking in 1948 and followed the KMT to Taiwan in 1949 in name of the relocation of central government, the newly elected representative enjoyed complete legitimacy from the island's popular support and many famous politicians in later years all rose from this series of elections.

²⁶⁹ The Central Office of Elections, *Proceedings of Provincial Assembly Election, County Mayors and Magistrates Elections on the Provincial Level in the Republic of China, 1951-1985*.

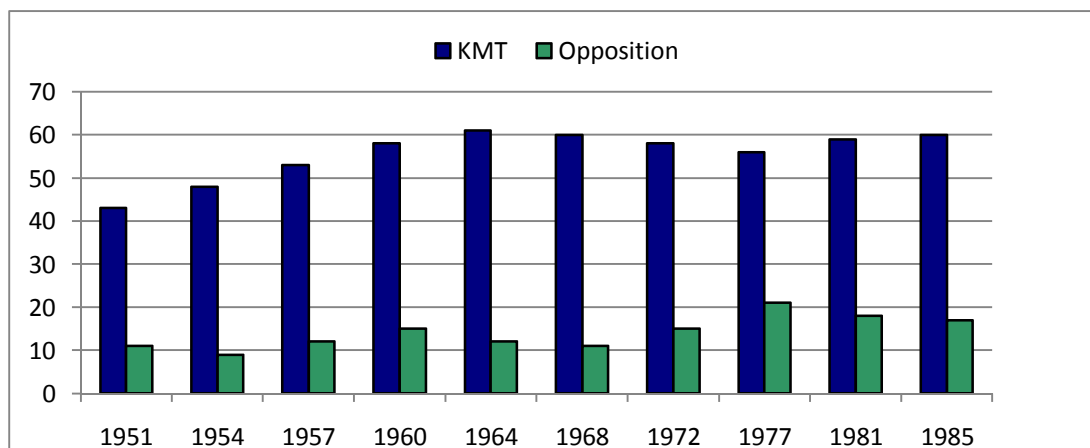
²⁷⁰ The Central Office of Elections, *Proceedings of the By-election and Election of Additional Members to Elective offices on the Central Government Level in the Republic of China, 1969-1986*

Figure 5.1 The County Mayors and Magistrates Elections from 1951-1985



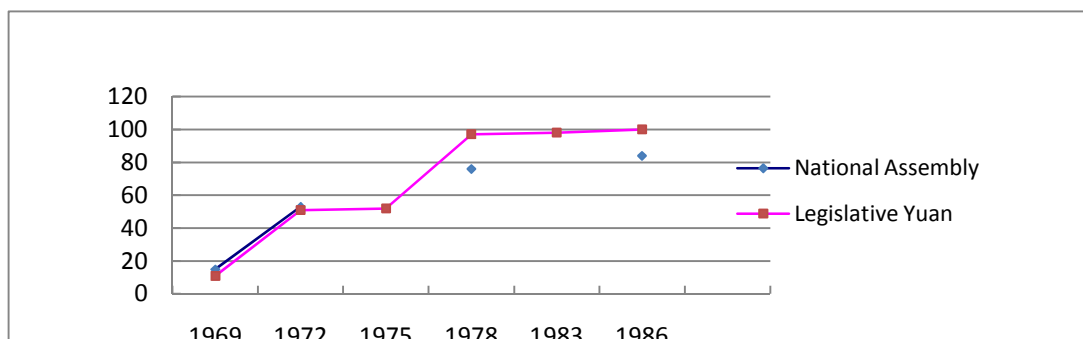
Source: The Central Office of Elections (ROC), Proceedings of the By-election and Election of Additional Members to Elective offices on the Central Government Level in the Republic of China, 1969-1986.

Figure 5.2: Taiwan Provincial Assembly Elections from 1951-1985



Source: The Central Office of Elections (ROC), Proceedings of the By-election and Election of Additional Members to Elective offices on the Central Government Level in the Republic of China, 1969-1986.

Figures 5.3: The increasing members in the central legislative bodies from 1969 to 1986



Source: The Central Office of Elections (ROC), Proceedings of the By-election and Election of Additional Members to Elective offices on the Central Government Level in the Republic of China, 1969-1986

During Chiang's tenure, the opposition (Dangwai) started to grow up quickly by publishing magazines, organizing political groups, and nominating candidates for the gradually opening elections even though the government still very often suppressed dissidents by labelling them "Communist agitators".²⁷¹ For example, journal *Tahsueh* (the *Intellectual*) in 1971, the United Independent Front in 1973, and the *Taiwan Political Review* in 1975 were all newly published magazines and organizations with provocative political comments or statements which criticized the KMT's privileges and argued sensitive political issues – including respect for human rights and calling for political reforms. The government responded to these challenges by warning them not to overstep their bounds, firing some dissidents from their academic jobs, and even putting the chief editor or organizer into jail.²⁷² In 1977, Hsu Hsin-liang, the former KMT provincial councilor, failed to get nomination from the KMT for the Tao Yuan County Magistracy and was expelled from the party for his published critical memoir about his bad experience with the KMT's corruption in the Provincial Assembly. Hsu finally got an overwhelming victory thanks to cheating in the counting of votes manipulated by the local electoral commission. The cheating also angered Shu's supporters, who surrounded the police station and burned several police vehicles.²⁷³ This anti-KMT Chung Li Incident was the first significant political rioting since the 228 Incident but did incur the expected consequences of Chiang Ching-kuo's command.²⁷⁴ Some people criticized, suspecting that Chiang's temperate

²⁷¹ Steven J. Hood (1997), *The Kuomintang and the Democratization of Taiwan* (Boulder, Colo: West-view Press, 1997), p.50

²⁷² Fu-chung Chang and Wan-hsing Chiu (2005), *Green Era-Taiwan Democratic Movement 1975-1987*, Taipei: INK Publishers, pp.24-31

²⁷³ Ibid. pp.38-48.

²⁷⁴ In 1977, the loose group of opposition candidates won 34% of the vote in the elections for the Taiwan Provincial Assembly. The growing opposition began to have an effect inside the Kuomintang. One popular figure, Hsu Hsin-liang, left the party and ran as a Tangwai for a local

decision was part of his preparations to take the presidency in the following year (1978) and that the cost of suppression was higher than that of tolerance.²⁷⁵ However, the establishment of Sino-US diplomatic relations on 16 December messed up the schedule in 1978 and the island-wide elections for offices at all levels of government were cancelled by Chiang Ching-kuo who also placed the ROC military on a state of alert to react to the diplomatic crisis. The discontent over the cancelled elections was generally believed to be a major reason which directly led to the Kaohsiung incident in the following year (1979) when the editors of *Mei-li-tao* (*Formosa*) magazine – which had become the second most popular publication on the island²⁷⁶ – organized a political group and the more radical of them began in October to open regional offices of the journal around the island and took on some of the functions of a political party, including sponsoring meetings to discuss political issues. On 10 December, a mass demonstration, in the name of the memory of international human rights, turned into a violent conflict with the security force.²⁷⁷ Hundreds of civilians and police got hurt, and the police arrested the eight rally organizers and charged them with rebellion. The state convicted them in a series of court-martials during March and April 1980. The ringleader, Shih Ming-de received a life sentence; Lu Hsiu-lian (she became vice president of ROC after 2000 when the opposition DPP went into power) and Chen Ju

county magistrate's position in November 1977. For fear that the Kuomintang would forge the election, 10,000 of Hsu's supporters gathered in the town of Zhongli to object to the use of paper ballots. Believing there was election fraud, the protestors rioted, burning down the Zhongli police station. The Kuomintang called in soldiers to suppress the riot (some 90% of whom were Taiwanese youths). The riot later became known as the "Chungli incident"^[1]. It was the first political protest on the streets since the 1940s.

²⁷⁵ Dai-yao Sun (2003), *The research of Taiwan authoritarian system and its transformation*, Beijing: China Social Science Publishers, p.85.

²⁷⁶ Marc J. Cohen (1988), *Taiwan at the Crossroads* (Washington ,D.C.: Asia Resource Centre) ,p.38.

²⁷⁷ Xiu-lian Lu (2008), *Re-judgment of Me-Li-Dao*, Taipei: Zi-Li Evening News Publishers, p.81

were each sentenced for 12 years. (Chen Ju became Kaohsiung Mayor after 2006.) For the opposition, the “Dangwai” had been weakened by the imprisonment/loss of key leaders after the Kaohsiung incident, but in the long run, gained a huge momentum of increasing political support among the public for democratic reforms. Those defenders and attorney at law also later became major figures of opposition, easily attaining important political positions through the coming open elections. The best example is Chen Shui-bian, who was the attorney of defendant Huang Hsin-chieh (he was also later successfully elected as legislator and acted as the longest serving DPP party chairman), started to rise up in the political platform and was successfully elected as ROC president in 2000. After the event, the government closed down 15 publications including *Meilidao* magazine but surprisingly, the authority permitted the media coverage of the Kaohsiung Eight Trial which aroused the sympathy of most Taiwanese towards the rally’s organizers. In the following years of 1982–1984, the opposition did not back down and kept on challenging the KMT’s authority. In 1983, the opposition organized the Tangwai Research Association for Public Policy (TRAPP) which was actually a de facto party in circumvention of the ban in order to coordinate more consolidated opposition activities. In 1984, the Taiwan Association for Human Rights was founded and the opposition used the organization as the basis for further demonstration and denunciation of the regime. On 28th of September 1986, Tangwai politicians gathered in a meeting room of Taipei’s Grand Hotel. The meeting’s original purpose was to determine the Tangwai’s nomination of candidates for the upcoming election but the participants decided to use the occasion to form a new party. The meeting yielded a declaration marking the birth of the Democratic Progressive Party signed by 132 participants knowing they were in danger of the KMT’s suppression. However, it was surprising that the government response was restrained, only declaring the DPP illegal, and did not send the police to

round up the members generally believed to be under Chiang Ching-kuo's guidance.²⁷⁸ In fact, in March, six months before the DPP was formed, the KMT had formed a 12-man committee to formulate a plan for lifting martial law, legalizing new political parties, and implementing other political reforms including the removal of restrictions on press. On 14 July 1987, the ROC government lifted martial law on Taiwan's territory – except Jinmen and Matsu – which ended nearly four decades of military-authoritarian control. On 1 January 1988, the number of licenses granted for publications was expanded and the permissible number of pages per newspaper increased. In 1989, a new Civic Organization Law finally passed and granted legal status to the DPP and at least ten other new parties.

5.2.3 Industrial upgrading and liberalization

When Taiwan was gradually integrated with the international division of labour in the 1960s, the external threats, especially the instability of the global economy, posed a much more serious challenge than any domestic constraints facing the regime. The external threats were mainly from the developed countries and the oil crisis. When Taiwan sold its cheap goods and benefited from the trade surplus, the developed countries started to adopt a neo-protectionist no tariff measurement to restrict imports. In 1974, the island experienced its first trade deficit since 1970, amounting to 1.3 billion dollars.²⁷⁹ To make matters worse, the extended global recession followed two oil crises (1973–1974 and 1978–1979) and brought the island

²⁷⁸ Xiao-feng Li (1991), *The Forty Years of Taiwan Democratic Movement*, Taipei: Zili Evening News Culture Publishers p. 242.

²⁷⁹ Ibid., Thomas. B. Gold (1986), p.98.

inflation, stagflation, and impacted on the many years of hard won price stability.²⁸⁰ The severe economic challenges required more state intervention and pushed the state to the front as the only actor when the domestic society lacked of confidence. In 1974, the government raised the ambitious “Ten Major Development Projects“ in order to stimulate the domestic economy and create a new niche in the international division of labour by building up a stronger and more complete infrastructure and upgraded industrial modernization.²⁸¹ From 1976 to 1981, the Economic Planning Council (EPC) also issued a Six Year Plan which emphasized capital and heavy industry – notably steel and petrochemicals – which also related to several projects already underway as the Ten Major Development Projects.²⁸² After 1980, the new established Council for Economic Planning and Development (CEPD), expanded from the EPC in 1977, issued another Ten-Year Plan for 1980–1989 and a Four-Year Plan for 1982–1986 which emphasized technology – intensive, non polluting and no energy consuming industries, notably information and electronics.²⁸³

The series of economic plans were proved successful later. When the global economy recovered in 1983, the island economy resumed its high growth rates.²⁸⁴

²⁸⁰ The economic growth rate dropped from 12.8% in 1973 to 1.1% in 1974 , not rebound until 4.2% in 1975; The Wholesale Price Index (WPI) increased from 22.9% in 1973 to 40.6% in 1974 ; Consumer Price Index in 1974 increased up to 47.5%; food price increased 47.4% .

²⁸¹ The Ten Major Construction Projects were national infrastructure projects during the 1970s in Taiwan. The government believed the state lacked key utilities such as highways, seaports, airports, and power plants. Moreover, Taiwan was experiencing significant effects from the 1973 oil crisis. Therefore, to upgrade the industry and the development of the country, the government planned to take on ten massive building projects. They were proposed by the Premier Chiang Ching-kuo, beginning in 1974, with a planned completion by 1979. There were six transportation projects, three industrial projects, and one power-plant construction project, which ultimately cost over NT\$300 billion in total.

²⁸² Ibid, Thomas. B. Gold (1986), p.100.

²⁸³ Ibid, p.102.

²⁸⁴ According to the ROC 's Bureau of Directorate General of Budget Accounting and Statistic,

Except for a more consolidated infrastructure, the established steel, petrochemicals and electronic industries become the major backbone of Taiwan's economy in the coming of years. For example, the China Steel Corporation, one of the "Ten Major Development Projects", became one of the world's most profitable steel companies, but was virtually a 100 per cent government enterprise;²⁸⁵ the Formosa Plastics Groups, the most famous Taiwan petroleum and chemical giants, was developed in the established petrochemical industry, one of the Ten Projects which integrated vertically two of Taiwan's major industries – synthetic textiles and plastics, produced finished goods and contributed to reducing vulnerability to crude oil price fluctuation.²⁸⁶ The Hsinchu Science-Based Industrial Park, established in 1980, was designed to concentrate talent and resources in the electronic sectors. Proximity to the two leading technical universities (University of Tsing-Hua and University of Chaio Tung) and the availability of the state-run Industrial Technology and Research Institute (ITRI) meant that the small innovative companies – headed by entrepreneurs with experience abroad and MNC linkages – were able to grow up quickly, utilizing the relatively low-cost engineers, technology transfer, and government financial support. United Microelectronic Corporations (UMC) and the Taiwan Semiconductor Manufacture Company (TSMC), two famous Taiwan world-leading semiconductor foundries, were separately established in the park in 1980 and 1987 - a typical

Executive Yuan , in 1974, the economic growth, industry growth, and inflation rate were separately 1.16% , -4.5% , and 47.5%; In 1976, the economic and industry rate rebounded to 13.86% and 24.4% , the inflation rate was reduced to 2.48%.

²⁸⁵ Yu-zhen Liu (2002), *The Iron Story: Wang Zhong Yu's life time in CSC*, Taipei: Tian Xia Culture publishers.

²⁸⁶ Wan-wen Qu (2002), *the mechanism of economic development – the case study on Taiwan petrochemical and bicycle industry*, Taipei: Taiwan Social Research Magazine Publishers, p.8.

example of this successful story.

In addition to the industrial integration, the government also liberalized the banking system including the deregulation of the interest rate in three stages from 1976–1989, adapting a floating exchange rate in 1978, and establishing a foreign exchange market in 1979. This series of measurements broadened the scope of banking practices which in turn caused the expansion of investment and trust companies.²⁸⁷ By 1980, when Taiwan had become the world's sixteenth largest exporter, trade was still 50 per cent concentrated on the United States (export) and Japan (import). In order to prevent overreliance on these two markets and due to some frustrations regarding US quotas and Japan's frequent critical refusal of Taiwanese exported products, the government started to diversify trading partners, encouraging investment from other regions, such as Europe and the Caribbean Basin. Except for the reducing economic risk, this policy was also helpful for Taiwan to both maintain and develop commercial relations and international identity with most countries around the world.²⁸⁸ The strategy of substituting economic ties was nothing but a flexible way of reducing economic risk when the international environment became unfavourable to the island. It also became the rationale of the later "pragmatic diplomacy" implemented in the 1990s when China continued to suppress Taiwan's international space.²⁸⁹

²⁸⁷ Jin-ying Hou and Qi Xui (2005) (ed.), *The History of Taiwan Financial Development*, Taipei: Taiwan Academy of Banking and Finance publishers, pp. 216–223.

²⁸⁸ Chyuan-jenq Shiau, Economic Development and Taiwan Democratization, *Taiwan Democracy Quarterly*, Vol. 1, No. 1 (2004), p. 13.

²⁸⁹ Ibid, Shiau (2004) p.16.

5.2.4 The establishment of US–PRC relations

While the KMT government engaged themselves in progressive political and economic reforms, the establishment of US–PRC relations gave the KMT government a diplomatic blow and made the nightmare of Sino-American rapprochement come true. On 16th December 1978, US President Carter announced that Washington would recognize Beijing and broke official relations with Taipei on 1st January 1979: the 1954 Mutual Defense Treaty would be terminated one year later and all US forces in Taiwan would be withdrawn within four months. Similar to the 1972 Shanghai Communiqué, the 1978 Joint Communiqué marking the establishment of official Sino-US relations contained a weak American affirmation of the One-China principle.²⁹⁰ The former US embassy in Taiwan devolved into the American Institute in Taiwan (AIT), technically a private corporation run by diplomats and civil servants who were retired or on leave from government service. In the meantime, Washington also enacted the Taiwan Relations Act (TRA), which became law in April 1979. The TRA emphasized that normal US relations with China were based upon the expectation that the future of Taiwan would be determined by peaceful means and the US promised to enable Taiwan to maintain sufficient self-defence capability by continued arms sales.²⁹¹ Despite President Carter was later electorally defeated by Republican Ronald Regan, who was noted for his anti-communist and hawkish stance, there are several records of pro-ROC statements. In a third joint communiqué in August 1982, the US pledged to gradually reduce its sales of arms to Taiwan and promised that its arms sales to Taiwan would not exceed the limitation, either in

²⁹⁰ Ibid, Liu (1997), pp. 332–333.

²⁹¹ Ibid., Huan-gui Guo (2005), p. 94.

qualitative or quantitative terms.²⁹²

The Taiwan Relations Act could be considered as the product of Washington's eclectic calculation.²⁹³ Washington worried that the ROC might seek a separate peace with the Communists if pushed too hard.²⁹⁴ In fact, Washington's fear was in some degree reasonable. It was advantageous to Taipei to play the Soviet Card, Soviet-ROC hostility had decreased since 1970 with the PRC maintaining a substantial military capability on the Chinese south-east coast, limiting the military resource available to deploy at the Sino-Soviet border; Soviet support for China's goal of reincorporating Taiwan faded such that the Soviet press and diplomats gave indications of accepting the idea the ROC in Taiwan was a state rather than a province of China.²⁹⁵ Taipei's plan was to host a Soviet military base if the US switched diplomatic relations from Taipei to Beijing. Taipei even thought about developing the nuclear weapons under Soviet technological support. Taipei's nuclear aspiration was aimed at preventing the possibility of the PRC wiping out the ROC's defences in a single swift attack and then occupying and controlling the island long before the

²⁹² Harvey J. Feldman (1998), "Development of US-Taiwan Relations 1948-1987", in Harvey J. Feldman, Michael Y.M. Kau, and Ilpyong Kim (1988) (ed.), *Taiwan in a Time of Transition*, New York: Paragon House, p.159.

²⁹³ The Taiwan Relations Act (TRA; Pub.L. 96-8, 93 Stat. 14, enacted April 10, 1979; H.R. 2479) is an act of the United States Congress passed in 1979 after the establishment of diplomatic relations with the People's Republic of China (PRC) and the breaking of relations between the United States and the Republic of China (ROC) on the island of Taiwan by President Jimmy Carter. It more clearly defines the American position on Taiwan and its cross-strait relationship with Beijing. Congress rejected the State Department's proposed draft and replaced it with language that has remained in effect since 1979.

²⁹⁴ John F. Copper (1981), "Political Development in Taiwan Taiwan " in James C. Hsiung (1981) (ed.), *Contemporary Republic of China: The Taiwan Experience, 1950-1980*, New York: Praeger, 1981, pp. 491-492.

²⁹⁵ Nancy Bernkopf Tucker (1994), *Taiwan, Hong Kong, and the United States, 1945-1992*, New York: Twayne, p. 92.

American military could intervene.²⁹⁶ In the end, Taipei did not run risk of alienating US support and changed its foreign minister, Chow Shu-kai, who believed that the threat of improved ROC relations with the USSR would induce the United States and China to treat Taiwan with greater consideration.

Conclusion

Even though the period of authoritarian control by two Chiang presidents is often criticised as anti-democratic and inflexible as their insistence in the “One China principle ” had forced Taiwan into greater international isolation, after the discussion of this chapter, the researcher found that the island’s rapid economic recovery in 1950–1970 and successful industrial upgrading and integration into the global market in 1970–1980 had actually created a solid social economy basis for the later democratic transition in the 1990s when the first Taiwanese president, Lee Teng-hui, began to implement a series of political reforms. The KMT party also enjoyed high support and legitimacy due to the island’s economic success, the effective policy of Taiwanization inside the KMT, and the low level of conflicts between the KMT and the opposition; which were both helpful in easing the challenges of the crisis of minority mainlander-dominated governance and advantageous for its later incremental and moderate reforms. Nevertheless, the progress of Taiwan’s democratic development so far is not altogether a good story.

As the first hypothesis of this research mentioned in Chapter 2, the nature and function of the island’s democracy had slowly and underneath changed its direction: democratization had strengthened the island’s self-identity to secede from China. It

²⁹⁶ David Albright and Corey Gay (1998), “Taiwan: Nuclear Nightmare Averted,” *Bulletin of the Atomic Scientists*, Vol. 54, No. 1 (January /February 1998), pp.54-60.

meant the later political leaders gradually showed the intention to abandon the “One China principle” and build Taiwan as a new country. The situation would undoubtedly cause more conflicts with China while the cross-Strait economic interaction was gaining speed, becoming closer after 1990. More details are discussed in the next chapters.

Chapter 6 Democratic transition under two Taiwanese presidents

Lee Teng-hui and Chen Shui-bian

Introduction

In this chapter, the researcher will argue that when Lee Teng-hui acted as the first native Taiwanese president in early 1990, along with his successor Chen Shui-bian after 2000, the Taiwan people's willingness to seek more autonomy internationally and greater social justice inside the island had actually provided these two native Taiwanese presidents (Father and Son of Taiwan) a legitimate basis to implement a series of political reforms (i.e. Lee's three stages of constitutional reforms and the public referendum raised by Chen) during their 20-year tenure, despite suspicions that the reforms were the outcome of a political power struggle and the manipulation of a growing Taiwanese consciousness. However, as China matured into another political and economic superpower (especially its significant influence on the global economic order) in late 1990, how a suitable cross strait relation with the PRC could be built (i.e. how to regulate the rapid movement and immigrant of Taishang) became a hard but inevitable lesson for each Taiwanese leader to face. The researcher will argue that even though Lee Teng-hui's controversial "Go Slow, Be Patient" mainland policy and "Special State-to-State" relations theories had actually given Taiwan more space to secede from the PRC's One China scenario, the island's gradually worsening economy and expanding social inequality (including imbalanced north-south regional development) actually weakened its ability to resist China's influence, reflecting on Chen Shui-bian's inefficient and inconsistent mainland policy despite his efforts to be proactive in diplomacy during his tenure.

6.1 Lee Teng-hui: the first Taiwanese president (1988–2000)

6.1.1 The Father of Taiwan and Mr. Democracy

When Chiang Ching-kuo died on 13 January 1988, Lee Teng-hui ascended to the presidency in accordance with the ROC constitution and was nominated as party chairman on 27 January after the thirteenth KMT congress. Lee's ascension is symbolic of the KMT's Taiwanization policy; public expectation was that there was finally a Taiwanese who had the chance to be in the highest position of the ROC government and the KMT. During his 12-year stay in office, Lee pushed through a series of peaceful political reforms which contributed to the growth of Taiwan's identity and the successful transition of the KMT in the 1990s. The process was praised as a "Quiet Revolution" and Lee enjoyed the reputation of being the "Father of Taiwan" and "Mr. Democracy".²⁹⁷ However, even though Lee's commitment towards expanding Taiwan's sovereignty helped him to receive huge popular support on his reforms – including the abolition of the Temporary Provisions, renewing parliamentary bodies, the direct election of the president, downsizing of the provincial government, and expanding Taiwan's international space in name of pragmatic diplomacy²⁹⁸ – Lee's decline in popularity in the final years of his term was generally believed to be the result of people coming to think he was more interested in revising the constitution to both enlarge his presidential powers and expand the Taiwanese faction in order to expel the mainlanders' influence; Lee created the notorious official corruption inside the KMT and government linked with organized crime (black gold

²⁹⁷ Jason C. Hu (1997), *Say Yes to Taiwan*, Arlington, Virginia: SIFT, Inc.

²⁹⁸ Zi-hua Huwang (2006), *The Ideas and Policies of Lee Teng-Hui's Governing*, pp. 49–56, Taipei: Li Ming Publishers.

politics).²⁹⁹ He was also suspicious of manipulating US support in order to provoke China while Cross-Strait economic ties became deeper and important.

Lee Teng-hui's Japanese colonial life experience, overseas study, and career development inside the authoritarian KMT hierarchy made his style of leadership unique and sometimes complex, even controversial. As a National Taiwan University (NTU) professor with a PhD from Cornell University, one of the leading schools in the United States, Lee's qualifications in agricultural economy, image of liberal scholarship, and low-key style – humble, and modest without factions – helped him to quickly win Chiang Ching-kuo's attention, trust and promotion. However, after Lee went to power, he gradually became the strongman of a patriarchy,³⁰⁰ and did not pay attention to technocrats from a similar background, gradually favouring the rich Taiwanese businessman with huge political and economic influence in the local areas. Moreover, Lee also quickly demonstrated his dissatisfaction with the ROC's political structure and Taiwan's international status, intending to seek more changes and greater independence. Lee compared himself to the biblical prophet Moses, who led the enslaved minority Israelites out of Egypt on a journey toward establishing a country of their own,³⁰¹ and that is why Beijing so easily considered Lee a separatist. Some researchers have attributed Lee's provocative style to his “double faced personality” (superficially quiet and obedient, but underneath passionate and hungry for power) which developed from his early life during the Japanese colonial depression and later the KMT's authoritarian control.³⁰² In some aspects, this style was negative to Taiwan's democratization during his stay in office in 1990 because

²⁹⁹ Zhen Xia (2000), *The Sunset of KMT*, Taipei: Tian Xia Culture Publishers, pp. 15–16.

³⁰⁰ Nian Huwang (1998), *The Portrait of Lee Deng Hui's Mind, Introduction*, Taipei: Lian Jing Publishers.

³⁰¹ Shiba Ryotaro (1994), *Travel Notes in Taiwan*, Tokyo: Asahi News, pp. 537–538.

³⁰² Ming Ruan (2000), *Democracy in Taiwan*, Taipei: Yuan-Liu Publishers, pp. 172–175.

Lee's strong Taiwanese patriotic sentiment (rather than rational calculation) sometimes made his reforms and policymaking lose focus and often caused greater controversies.

6.1.2 Three stages of political reforms

President Lee's tenure can be classified as three stages (1988–1990; 1990–1996; 1996–2000) and each stage reflects his different ideas and strategies to implement his reforms. In the first three years (1988–1990), because Lee directly received his power from Chiang Ching-kuo for whom he had been vice president, he was expected to perform as a “weak president” who still faced big challenges from the sensitive and hostile mainlanders' faction – which was still the mainstream inside the KMT.³⁰³ Some research posit that Chiang Ching-kuo choose Lee as a successor not only because Lee was Taiwanese, but also because he was a good balance for the power struggle inside the KMT (in Chiang's mind, Lee acted very independently without any factional support inside the KMT).³⁰⁴ However, Lee skilfully made use of his presidential power to nominate the mainlander opponents as premiers and then had them resign for different reasons. Lee initially retained Yu Kuo hwa as premier for one year, but replaced him with Li Huan – who was considered the most influential member of KMT central committee.³⁰⁵ Li Huan's premiership was also for one year and he was later replaced by General Hau Po-tun, the military heavyweight, who was famous for his successful command on Kinmen during the 1958 Taiwan Strait Crisis

³⁰³ Taiwan Association of University Professors (1996), *Consultations on Lee Teng-hui*, Taipei: Qian-Wei Publishers, p. 20.

³⁰⁴ Jing-wen Zou (2001), *The Real Record of Lee Teng-hui in Power*, Taipei: Yin-ke Publishers, p.63.

³⁰⁵ Ibid., pp. 66–67.

and was known as a strong supporter of the One China Principle.³⁰⁶ Lee ascribed the outbreak of the “March Students Demonstration”³⁰⁷ to Li Huan’s improper response to the students’ requirements; however, the movement on the other side led to the holding of the National Affairs Conference (Kuoshih hui, NAC) in the summer of 1990 (June–July), three months after (March 21) Lee won an uncontested vote to become the ROC’s eighth president by the National Assembly. The holding of the NAC was advantageous for Lee with regard to consolidating his power and promoting the later substantive political reforms – and especially advantageous in respect of allowing direct elections for the highest political offices including the governor of Taiwan, the mayors of Taipei and Kaohsiung in 1994, and the presidential election in 1996. The NAC’s decision also suggested that all the parliamentarians (members of the National Assembly, Legislative Yuan and Control Yuan) elected by constituencies on the mainland had to retire by the end of 1991 and that all the seats of the parliamentary bodies would be renewed from Taiwanese constituencies, beginning with the National Assembly in 1992; similar elections for the Legislative Yuan and the Control Yuan would follow in 1994 and 1993 respectively.³⁰⁸ On 30 April 1991, Lee announced the abolition of the Temporary Provisions and the termination of the Period of the National Mobilization of the Suppression of the Communist Rebellion. The announcement explained “the ROC was no longer formally at civil war with the PRC” and implied recognition of the legitimacy of CCP rule on the mainland.³⁰⁹ However, the announcement was later considered as intentionally ambiguous, even a very controversial political idea raised by President Lee. From a

³⁰⁶ Yu-Kuo Zhou (1993), *Lee Teng-hui’s One Thousand Days*, Taipei: Mai-Tien Publishers, p 289.

³⁰⁷ Ibid., Ming Ruan (2000), pp. 181–183.

³⁰⁸ Ibid., pp. 186–187.

³⁰⁹ Office of President (ROC), *Constitution History*,
http://www.president.gov.tw/en/prog/news_release/print.php?id=1105496082.

positive perspective, the announcement can be interpreted as a bilateral friendly message released by the ROC government which implied that the Taiwan Strait situation was no longer a confrontation between “two Chinese governments” (ROC and PRC) and the situation was necessary for the ROC to foster the healthy development of constitutional democracy and enhance social harmony and progress. However, from the subversive perspective, along with the abolishment of the mainland-elected members, the political significance of these changes are the weakening of the ROC’s claim to jurisdiction over China (*Fa-tung*) which had gradually aroused the suspicion of the KMT conservatives and the CCP with regard to Lee’s “separatist motivation” from China in the name of political and economic reforms.

As mentioned above, Lee won an uncontested vote and was elected as the ROC’s eighth president by the National Assembly on 21 March 1990. After this final “cosmetic election” for president, Lee found his personal power was further consolidated and it was the time for him to put his ideas into practice despite that there was no timetable for implementing the decision of the National Affairs Conference (NAC). Over the following six years, the second tenure of his presidency (1990–1996), Lee and his Taiwanese faction gradually became the mainstream of the KMT and began to dominate the work of “revising the constitution” in accordance with the agreement and suggestion of the NAC.³¹⁰

³¹⁰ Yao-song Lin (2004), *Lee Teng-hui and the Split of KMT*. Taipei: Cross-Strait Academy Publishers P, 125.

Table 6.1: Constitutional reforms during Lee's tenure

Lee's tenure	Year	Major issues and decisions	Political controversies
The second term (1990–1996)	1991	1. Abolishment of the mainland-elected members 2. Establishment of the National Security Council (NSC)	1. Secession from the One China Policy 2. Strong presidency
	1992	The direct election for the Governor of Taiwan, Mayors of Taipei and Kaohsiung City, and County Chief Executives in 1994	Main stream and non-mainstream political struggle inside the KMT
	1994	The direct election for the president in 1996	The split of the new party from the KMT
The third term (1996–2000)	1997	1 The relationship between the president and the premier 2. Downsizing provincial government	The split of James Soong from the KMT for 2000 presidential election
	2000	Abolishment of the Provincial Government	Bilateral legislative bodies were transformed into unilateral form

Source: Author's compilation

Along with Lee's third tenure (1996–2000), there were five phases of constitutional revision in ten years. According to Table 6.1, in the first phase of constitutional revision in 1991, following the NAC's decision (mentioned above), the

National Assembly passed a constitutional amendment which stipulated that all the seats elected by constituencies on the mainland had to retire by the end of 1991 and be renewed from a Taiwanese constituency in 1992. Before the members of first National Assembly (mainland-elected members) retired, the work of these mainlander representatives was considered as a contribution, with their major role and task being to authorize the second National Assembly to push constitutional reforms. The KMT defined the process as “one assembly, two stages” and proclaimed it a wise and peaceful measurement.³¹¹ As mentioned above, the abolishment of the mainland-elected members is symbolic of the weakening of the ROC’s claim to jurisdiction over China (*fa-tung*) and to some extent caused the controversies concerning whether the ROC would gradually secede from the “One China Policy” to de facto Taiwanese Independence. Even though they were criticized by the Taiwanese people as “rubber stamps of the executive” or bantered as an “old thief” who occupied parliament for a long time, the elderly mainlander parliamentarians still believed themselves the first born Chinese democratic bodies who should not be removed in the “free China” area. The other issue in the 1991 reform was the establishment of the National Security Council (NSC). This caused controversy in that certain residential authoritarian elements were preserved and transplanted into new amendments so that the presidential power was expanded after the creation of emergency powers and the National Security Agency under the president’s office.³¹²

The second phase of constitution revisions in 1992 made a significant contribution to democratic transition in Taiwan. In addition to being the first election for Taiwanese people to elect representatives in the central legislative body (the

³¹¹ Ibid., Zi-hua Huwang (2006), p. 71.

³¹² Yun-han Chu (2001), “Democratic Consolidation in the Post-KMT Era: the Challenge of Governance” in Muthiah Alagappa (2001) (ed.), *Taiwan’s Presidential Politics: Democratization and Cross-Strait Relations in the Twenty-First Century* (Armonk, NY: M.E. Sharpe), p. 89.

National Assembly), the new National Assembly also passed constitutional amendments which stipulated that the highest political offices in different levels including Governor of Taiwan, Mayors of Taipei and Kaohsiung City, and County Chief Executives would be selected from popular election rather than appointment in 1993 and 1994. The changes were actually the milestone of the building of Taiwan's democratic institutions and were advantageous for the development of popular sovereignty. However, whether the president and vice president in 1996 would be also directly selected from the general public was not the consensus inside the KMT but resulted in "mainstream and non-mainstream conflicts" between the Taiwanese faction led by President Lee who supported direct public election and the mainlanders faction led by Premier Hau who suspected that direct election would produce a president of the "Republic of Taiwan" and so provide Lee a good opportunity to wield his personal power. The dispute was not resolved until the third phase of constitution revisions in 1994 when the mainlanders faction had broken away to establish the New Party in 1993.³¹³ In 1994, the scenario to adapt the plural mandate, rather than majority formula for presidential election was confirmed, despite the potential to create a trouble "minority president" and executive-legislative deadlock if another majority in the Legislative Yuan occurred. Nevertheless, the choice was generally believed to be favoured by President Lee's and indicative that he wanted to reduce the risk of failure when he joined the first direct presidential election in 1996.³¹⁴

³¹³ The Chinese New Party was formed out of a split from the then-ruling Kuomintang (KMT) by members of the New Kuomintang Alliance in August 1993. Members of the Alliance had accused KMT Chairman Lee Teng-hui of dictatorial tendencies and moving the party away from Chinese reunification. Originally, the party wanted to keep the name of the faction, but was prevented from doing so due to the similarity of names. The name "New Party" was seemingly inspired by the contemporary electoral success of the Japan New Party.

³¹⁴ Nian Huwang (2008), *Such a Chen Shui-bian! The Records of Eight Years in Power*, Taipei:

However, while the KMT enjoyed the presidency and majority in the Legislative Yuan, the executive–legislative dispute could be solved via a party channel mechanism. When the KMT lost its power in 2000, the reform left the DPP not the heritage but the disaster of eight years of minority government sufferings.

The fourth phase of constitution revision in 1997 focused on more details about the new form of government, but the improper and disputable modifications to the constitution made the ROC Constitution more complex, vague and open to dispute – especially the unreasonable expansion of presidential power and unclear relationship between the president, premier (executive Yuan), and legislative check. Firstly, under the new way of presidential election, the president was elected by plurality, not majority mandate. It is easy to create a deadlock between a minority president and a majority assembly during a period of “cohabitation” like the French system. Secondly, as the analysis and argument in Chapter 3.2 demonstrated, the new constitutional revision did not define a clear relationship between the president and the premier. The confusion included questions regarding whether the new form of government was a presidential or parliamentary system and if the president or premier was the highest executive in central government. Compared with general presidential system, the ROC president did not have veto power to break the deadlock but enjoyed extensive powers of premier nomination and pre-eminence in areas of foreign policy, defense, and relations with the mainland, without the legislature’s check and consent. Compared with the parliamentary system, the ROC premier enjoyed the right to ask the president to dissolve the Legislative Yuan if the Legislative Yuan unseated the cabinet with a vote of no-confidence; however, the premier is not guaranteed to be the major party leader in parliament and members of the cabinet are not guaranteed to be

legislators (incompatibility). Therefore, it makes sense that the premier has the power to ask the president to dissolve the Legislative Yuan and that the Legislative Yuan can unseat a cabinet through a normal vote of no-confidence because the government is a form of presidential cabinet, not an alternative parliament with a clear collective responsibility.³¹⁵ In fact, in the later development of the political situation, it never happened either that the premier dissolved the Legislative Yuan or that the Legislative Yuan unseated the cabinet with a vote of no-confidence because the subsequent election would actually be a high cost for legislators. The only way to break such an executive legislative deadlock would be for the president to nominate a new premier who would reorganize a new cabinet.

As argued in Chapter 3.1, designing and deciding the form of government and the method of election “a country’s adoption depends more upon its political consideration than upon abstract consideration of electoral justice or efficient government”. The story of Taiwan’s constitutional reforms mentioned above proves the theory that the KMT dominated the process which carried too many elements of unilateral imposition, short-term partisan calculation and tactical moves rather than a

³¹⁵ In the general parliamentary system, either the premier asks president to dissolve legislators or the legislative body unseats a cabinet through a normal vote of no-confidence, it is a useful mechanism to break the executive–legislative deadlock and reconfirm that there is a stable majority in the legislative body; when the above situation happens, it means the stable majority in the legislative body has altered and needs to be reconfirmed by a follow up election. If the premier successfully dissolves legislators and wins support from the follow up election, it means he has cleaned up the betrayers inside his party or coalition and re-controls the majority support in the legislative body; on the other hand, if the premier fails or the cabinet is unseated a through a no-confidence vote successfully passed, it means the general public expect and support a new majority in the legislative body who will reorganize a new cabinet (government). Under this circumstance, the old cabinet should resign and will be replaced by the new one organized by the new legislators. In other words, for the old legislator, unseating a cabinet through a normal vote of no-confidence is a risk for themselves but also a good chance to change a premiership which they don’t support or like.

final and lasting accord over constitutional arrangements.³¹⁶ The controversies of the 1997 constitutional reforms about the abolishment of provincial government (in the KMT's interpretation, the reform is the cessation of the function of provincial government, not the abolishment) explained this KMT manipulation and President Lee's personal prejudice. Soong Chu-yu (or James Soong) was the first elected Governor of Taiwan. He had been elected by a direct and island-wide vote, but had enjoyed an earlier victory in 1994 and wider marginal support than President Lee (57 per cent to Lee's 54 per cent). However, the decision to cut back the provincial government's size and responsibilities, and suspend the elections for the governor and Provincial Assembly were considered to be a strategy to weaken Soong's power base, even though the reform was actually advantageous for advancing government efficiency by reducing the economic cost of the old redundant central government.³¹⁷ Soong's mainlander background and high popular support was considered to be the most serious threat to Lee-Lien faction inside the KMT (Lien Chen was gradually acknowledged as the successor by President Lee in the late 1990s) even though he had supported Lee to fight against the mainlanders faction in his first term. For Taiwan's democracy, the political struggle was another bad story of Mainlander–Taiwanese conflict, especially raised by the highest political elites in the name of democratic reform.

³¹⁶ Ibid., Yun-han Chu (2001), pp. 91–93.

³¹⁷ Gerald A. McBeath (2000), "Restructuring Government in Taiwan," *Asian Survey*, Vol. 40, No. 2 (March/April 2000), pp. 251–268.

6.1.3 Deepening Cross-Strait economic linkage and policy of “Go slow, be Patient”

Taiwan's trade with China began in the mid-1980s and the volume of trade had increased ever since. For Taiwan's businesses (Taishang), in order to defend their global market share especially in the Western world, mainland China had become the best choice for Taishang to relocate their bases for lower production costs (lower labour costs, a potentially huge market, and government's tax concessions) , and land provision from Taiwan island where the business environment gradually worsened. (Taiwan dollar appreciation, the wake of the environmental movement and working class consciousness).³¹⁸ Closer Cross-Strait economic interaction has led to three waves of Taiwanese investment in China to date. The traditional labour-intensive small and medium sized enterprises (SMEs) went first for lower labour costs in the late 1980s (i.e. garments and shoe making). In the second wave (the middle of 1990), large enterprises, mostly public-listed companies followed to supply intermediate goods to SMEs and look for cheap and accessible land for expansion (i.e. petrochemical industry). Other big firms, especially those in the food processing industry began to penetrate China's market. Firms in information technology spearheaded the large third wave of investment beginning in the late 1990s.³¹⁹ Except for tapping the domestic market and cheaper brainpower, the requests from Western contractor to ask Taishang to use China's production costs as the base to quote prices become the major reason for the relocation of the semiconductor industry.³²⁰ Following these three waves of Taiwanese investment, the local

³¹⁸ T.J. Cheng (2005), “China – Economic Linkage: between Insulation and Superconductivity”, in Nancy Bernkopf Tucker (2005) (ed.), *Dangerous Strait: The US–Taiwan–China Crisis* (New York: Columbia University Press), p. 95.

³¹⁹ Ibid., p. 97.

³²⁰ Ibid., p. 99.

market-oriented industries, including cement, real estate, banking, are queuing up and are predicted to be the next wave of Taiwanese investment.

Despite Taishang benefitting from the closer and deepening Cross-Strait economic exchange, the problems of national security (i.e. three direct links reduce the space to defeat a possible PLA invasion; Taishang gave China economic leverage to coerce Taiwan politically and militarily) and negative impacts on the island's domestic economy (i.e. all "hollowing out" of industry reduces the government revenue and labour job opportunities) force the Taiwanese government to pursue a "Go South" policy in 1994,³²¹ and President Lee's public appeal, the "Go Slow, Be Patient!" policy in 1996. The policy constrained the investment in the mainland, especially the high technology sector, preventing from the loss of core technology to Chinese competitors.³²² However, the policy was not welcomed by Taishang, and some research showed that the hollowing out warning proved to be a false alarm and that the outward FDI to mainland China has brought Taiwan a high level of foreign exchange earnings which were returned to Taiwan and contributed to industrial upgrading and production expansion; the government ignored the fact that "the manufacturing sector in Taiwan's GDP increased, the share of service sector increased" and that this is a normal process and that all mature economies in the West had gone through such structural changes.³²³ As argued in Chapter 4.2, the diversified perspectives on the nature of Cross-Strait relations had been influenced by problems

³²¹ Zhen-zhao Song, "The Political Economical Analysis of ROC's 'Go South Policy'", *Zhong-Shan Journal of Social Science*, Vol. 8, No. 3, pp. 67–92.

³²² *China Times*, Lee Teng-hui raised this idea in the National Managers Conference speech, 4 September 1996, A2.

³²³ Chen-yuan Tung (2002), "The Impact on Taiwan" (An Interim Assessment of the Impact of Taiwan's Investment in China on Taiwan's Economic Development), in Shang-jin Wei, Wen Guan-zhong, and Hui-zhong Zhou (2002) (ed.), *The Globalization of the Chinese Economy* (Cheltenham, UK: Edward Elgar, 2002), pp. 190–204.

of a national identity cleavage. How to evaluate the proper degree (depth and width) of cross strait economic interaction had become the most important lesson, but was controversial issue when Lee Teng-hui was in the office.

6.1.4 The Koo–Wang Meeting and 1995–1996 Taiwan Strait Crisis

Cross-Strait economic interaction and the related social issues it caused (i.e. smuggling, fishing disputes, illegal immigrants and crime) had made the need for coordination between the two governments inescapable. Taipei established the Straits Exchange Foundation (SEF) in 1991. Similar to the AIT in Taiwan, the SEF was technically a private organization staffed by ROC government officials who were on leave or retired from government, but supervised by the Mainland Affairs Council and funded mostly by the government. China formed a counterpart to the SEF, the Associations for Relations Across the Taiwan Strait (ARATS).³²⁴ In 1992, negotiators for Taiwan and China agreed to “shelve” the tough political issue of disagreement over the One China principle and arrange a meeting between SEF and ARTAS to discuss practical matters. The promise later became the famous “92 consensus”, where both sides had actually reached a consensus that they could hold different interpretations of the One China principle –there is still some controversy whether both sides reached a consensus or just a simple understanding on record.³²⁵ On 27–29 April 1993, the first chairmen of the two organizations, Koo Chen-fu (SEF) and Wang Dao-han (ARATS) met for discussion in the neutral site of Singapore. They secured agreements on the postal service and on verifying documents and committed to meet

³²⁴ Straits Exchange Foundation, “The Review of the SEF in the past 18 Years”, online, available at: <http://www.sef.org.tw/ct.asp?xItem=50338&ctNode=4328&mp=1>, accessed 12 March 2007.

³²⁵ *Liberty Times*, “The Memory of Koo Chen-fu: There was no ‘92 Consensus’”, 6 March 2005.

again,³²⁶ but achieved no political breakthrough.

In January 1995, PRC president Jiang Zemin presented the “Eight-points” proposal for reunification.³²⁷ Even though the announcement did not specify that China would stop the use of force against Taiwan, the speech was notable for its conciliatory tone and the promise of resolving the Taiwan question through peaceful negotiation.³²⁸ In April, Lee Teng-hui responded to Jiang’s Eight Points with his own “Six Principles”.³²⁹ Lee expressed willingness for high-level negotiations, peaceful means to solve any disputes, but that Beijing should accept the two separate Chinese governments first.³³⁰ In June, Lee’s visit to his US alma-mater, Cornell University with the permission of US Congress was more disappointing to China. Beijing felt very angry and concluded that the US broke its promise to provide cover for Lee to fulfil his alleged separatist agenda. Beijing also considered that Lee was taking advantage of the PRC’s conciliatory posture toward independence while claiming commitment to the One China Principle.

In July, the PLA launched test-fire missiles into waters off the Taiwan coast. Two large scale military exercises, naval in August and amphibious in November (the largest one in the PLA history), were held in the Taiwan Strait and it was admitted by the Chinese government that the exercises were a response to Lee’s actions. In

³²⁶ *United Daily News*, 30 April 1993, A4.

³²⁷ On January 30, 1995, the General Secretary of the Central Committee of the Communist Party of China and the President of China Jiang Zemin delivered an important speech entitled “Continuing to Strive toward the Reunification of China”. In his speech Jiang Zemin put forward eight propositions on the development of relations between the two sides of the Taiwan Straits and the peaceful reunification of China on the current stage. For more information and the full text of the statement, please see : <http://www.strait2taiwan.tw/content/jiang-zemins-eight-point-proposal>.

³²⁸ *China Times*, “How to Evaluate Jiang’s Talk on Cross Strait Relations?” 5 February 1995, p. 10.

³²⁹ The RMMA, “President Lee’s Speech at the Tenth Committee of the Whole of the National Unification Council”, pp. 5–6.

³³⁰ *China Times*, 9 April 1995, A10.

February 1996, soon after Taiwan's first direct popular presidential election campaign formally began, Beijing announced another round of missile firings into the Taiwan Strait: PLA tests on 8–15 March sent missiles to impact areas close to Taiwan's north and south principal ports, Keelung and Kaohsiung.³³¹ During this 1995–1996 Taiwan Strait Crisis, in the first wave of missile threats, the Clinton administration ordered the aircraft carrier Nimitz and its supporting ships to pass through the Taiwan Strait for the first time in 17 years. In the second wave, two aircraft battle groups (Nimitz and Independence) were deployed to international waters near Taiwan. Sending one carrier in support of Taiwan was a symbolic gesture, but sending two was a much stronger signal that suggested readiness to do battle. Compared with its counterpart, the PLA force mobilized was far too small to attempt an actual invasion. The PLA's missile test and exercise was clearly no more than a show of force designed to warn Taiwan what might happen in the future.³³²

For Taiwan, the crisis had caused mixed consequences. Taiwan benefitted from international sympathy and US security support, but it meant that Taiwan would spend more on US arms sales for its stronger self-defence. Meanwhile, the willingness of the United States to support Taiwan's separatism reduced: Washington obviously had eliminated some of the ambiguity in America's strategy for fewer opportunities by which Taiwan could provoke China, even though American domestic public opinion became more sympathetic toward democratic Taiwan and concerns about the potential of the PRC threat after the event.³³³ The crisis also strengthened the US–Japan security treaty and therefore increased the potential role that Japan might play in

³³¹ Ibid., Zi-hua Huwang (2006), pp. 83–84.

³³² Susan Berfield and Alejandro Reyes, "Eye of the Storm", *Asia Week*, March 29, 1996, p.23.

³³³ Alan Wachman, (2001), "America's Taiwan Quandary: How Much Does Chen's Election Matter?" in Muthiah Alagappa (2001) (ed.), *Taiwan's Presidential Politics: Democratization and Cross-Strait Relations in the Twenty-First Century* (Armonk, NY: M. E. Sharpe, 2001), p.247.

support of US military action in the region. In fact, both super powers had learned the lesson that the Taiwan issue would become a serious conflict between China and the United States if Washington and Beijing continued to have having misunderstandings or misinterpretations regarding each side's policy making. In particular, Washington had realized nationalism and CCP self-preservation would suddenly trump the need for modernization and China might risk breaking the economic ties with the United States even though its dependence on the US market was very high.³³⁴

³³⁴ Nancy Bernkopf Tucker (2005), "Strategic Ambiguity or Strategic Clarity", in *Dangerous Strait: the U.S. – Taiwan – China Crisis*, New York: Columbia University Press, 2005, p.195.

6.2 Chen Shui-bian: the first party alternation (2000–2008)

6.2.1 The minority government and the DPP's inexperience

Chen Shui-bian won the ROC presidential election on 18 March 2000 with only 39.3 per cent of the vote (4,977,737 ballots) when James Soong ran for the presidency as an independent (36.84 per cent, 4,664,932 ballots) against the party nominee Lien Chan (23.1 per cent, 22,925,513 ballots).³³⁵ The DPP's victory could be considered as very lucky and also surprising that the minority president electoral formula provided them an unprecedented opportunity to win the election when there was a split of factions within the KMT. As argued in the previous section, the adaption of a plural mandate, rather than a majority formula, was generally believed to be in President Lee's favour – Lee wanted to reduce the risk of failure when he joined the first direct presidential election in 1996 (in the 1996 presidential election there was also a split inside the KMT). However, the KMT never imagined that this institutional change would become the major reason leading to their failure in 2000 despite they still enjoyed 60 per cent popular support at that time. The DPP's victory was also significant because Taiwanese people for a long time expected that the DPP government would improve the unfair social economic resource allocation and lessen corruption following the half-century of KMT rule (1949–2000). However, the Taiwanese people began to experience disappointment as soon as the new DPP took over the central government, it seemed that the DPP was incapable of satisfying people's expectations because of its own weakness on governing and the structural limitations they faced. The DPP's lengthy time in opposition, its lack of

³³⁵ *China Times*, "The 10th ROC Presidential Election", 19 March 2000, p.8.

administration experience, and minority in the legislature led them into ineffective policy making and Pan–Blue Coalition obstructionism.³³⁶

The third (1994) and fourth (1997) phases of constitution revision caused a deadlock between a minority president and a majority assembly, without clear legislative checks on the president, especially the confirmation on the premier's nomination.³³⁷ During the confrontation, according to major political theories, the only way to break the deadlock was for the president to respect the majority in the Legislative Yuan and nominate a member of majority party as premier. Similar to the French cohabitation system, there would be a temporary expedient division of labour between president and premier if they were both able to respect each other's range of powers (the president is responsible for diplomacy and national defense; the premier is responsible for domestic affairs and economy) before the next election was held and a stable majority was produced. Unfortunately, the scenario was proved to be a failure in Taiwan's case in that President Chen only adopted this method once in the initial three months (105 days) of his first tenure: Chen proclaimed he would be the "president of all the people", nominated the former defense minister Tang Fei who was also a senior KMT member, and thought would be acceptable to Pan–Blue legislators even though Tang did not actually have recognition from KMT high-ranking leaders. In the controversies surrounding the construction of a fourth nuclear power plant, even though president Chen personally supported Premier Tang, the DPP major factions had entirely different perspectives to Premier Tang and forced Chen to implement his presidential prerogative, causing Tang to resign the

³³⁶ Shelley Rigger (2005), "The Unfinished Business of Taiwan's Democratization" in Nancy Bernkopf Tucker (2005) (ed.), *Dangerous Strait: The US-Taiwan-China Crisis*, New York: Columbia University Press, p. 17.

³³⁷ Ibid., p. 30.

premiership.³³⁸ After Tang's premiership, from his replacement, Chang Chun-hsiung to the final premier, Xie Chang-ting in 2007 (he was also the DPP presidential candidate in 2008), there were seven premiers in the eight-year DPP administration. The short premierships caused unstable central policy making and exacerbated the weakness of the DPP minority government. Meanwhile, during Chen's tenure, the DPP government had no way to overcome Pan-Blue Coalition obstructionism. The Pan-Blue Coalition including the KMT and the People First Party (PFP) constantly dominated the Legislative Yuan and enjoyed majority seats. In the 2001 legislative election, the KMT and PFP took 114 seats (68 + 46), 50.6 per cent, the DPP took 70 seats, 31.1 per cent. In 2004, even though Chen won the presidency and central government, the KMT and PFP took 113 seats (79+34), 50.2 per cent, the DPP took 89 seats, 35.1 per cent,³³⁹ and in January 2008, the KMT took an incredible 81 seats³⁴⁰ and the DPP only 27 seats, the asymmetric electoral results signaled the coming of failure and end of the DPP administration.

Meanwhile, President Chen's personality and the DPP's inexperience had worsened the inefficient and inconsistent policy making mentioned above. Like President Chen, the DPP never thought they could win the 2000 presidential election and were not able to change their role of opposition to a competent government in time. The previously active and liberal opposition party with more plural discussion, autonomous factions, and creative ideas compared with the bureaucratic KMT was

³³⁸ *China Times*, 13 October 2000, A1.

³³⁹ The 6th ROC Legislators Election Results, *United Evening News*, 2 December 2001 A4; The 6th ROC Legislators Election Results, *China Times*, December 12, 2004, A10 ; The 7th ROC Legislators Election Results, *United Daily News*, 14 January 2008, A4.

³⁴⁰ Before the election, the People First Party (PFP), the other major party in the Pan-Blue group, proclaimed there would be ten candidates joining the election in the name of the KMT, and that the PFP would merge with the KMT after the 2008 legislative election, *China Times*, 14 November 2007.

now becoming a weak new government who lacked governmental experience, had a shortage of technocrats, and experienced continued ideological disputes between various DPP factions. Moreover, Chen's background and personal style also made him a very controversial candidate to be the ROC's highest leader. Chen grew up in an impoverished tenant farming village in southern Taiwan. From National Tainan First Senior High School to National Taiwan University, he was always top of the class academically and became Taiwan's youngest lawyer before the completion of his junior year with the highest score. When he entered into the politics, from attorney for the defendant of the Kaohsiung Incident to legislator and Taipei mayor, Chen always played an active role of an opposition lawyer who was used to challenging authority and representing the minority to demand greater political reforms. To be a public representative, his flexibility and adaptability along with his lawyerly style helped him to be an eloquent and attractive spokesman for the people. His hard working experience in his early youth helped him to enjoy the reputation of a real "Son of Taiwan" and to win the support of the younger generation and the population of the southern region of Taiwan. Nevertheless, when he became the president, Chen suddenly afforded people the impression that he was a proactive, changeable, and unaccountable leader who was neither a neutral arbitrator to solve the serious internal Blue-Green conflicts, nor a wise helmsman to lead Taiwan to stability in the Sino-US Confrontation. Chen's preference for working with opportunistic politicians and young people was also criticized as the major source of his inconsistent and rough policy making with no respect for regulations and institutions. For Taiwan's democratic development, Chen and the DPP actually did make a contribution to overthrowing the long time KMT authoritarian control. However, for long term democratic consolidation, a mature democracy requires more institutional establishments and the removal of unreasonable or unpractical rules. To make matters

worse, Chen's manipulation of the election and corruption inside his family's inner circle, especially in the latter years of his second tenure, proved that this job was impossible during his tenure and Chen's administration obviously lacked respect for democratic values, let alone establishing institutions.

6.2.2 Defensive referendum and legislators' electoral reform

The Pan-Blue Coalition obstructionism stimulated Bian's administration to think about how to bypass elected officials and reduce legislative influence. Promoting referendum and legislative reform were considered by the DPP government as the best way to achieve these goals but had caused controversies about whether the use of a referendum was good for a DPP minority government to put policy prudence aside in order to gain a short term political cleavage.³⁴¹ In general, in democratic countries referendums are limited to domestic public issues and have a more modest goal: using popular votes to pressure elected officials into passing legislation mirroring a referendum question; but during Taiwan 2000, the holding of a referendum might have caused a suspicion that the DPP government wanted to make use of the referendum to ratify a new constitution – an overt statement of independence which would be troubling to both Washington and Beijing but domestically very helpful for the DPP to consolidate Chen's core supporters and mobilize undecided voters for the presidential elections.³⁴² Moreover, since the DPP loudly preached the concept of a referendum which would be the first time the people of Taiwan directly determined their fate in certain issues, the promotion of the referendum enjoyed high support and

³⁴¹ Ibid., Shelly Rigger (2005), p. 20.

³⁴² Yi-hua Jiang, "Monocracy? Constitutional development is thwarted by disputable referendum", *China Times*, 20 February 2004, A15.

gained unprecedented momentum in the summer of 2003.³⁴³ KMT legislators did not want a referendum bill at all, but were under pressure from their constituents to support some kind of referendum measure (they should have preferred the DPP's caucus version, as it more closely reflected their own caution in dealing with the PRC).³⁴⁴ Each camp was more interested in gaining a political advantage than in advancing public policy goals.³⁴⁵ The Pan-Blue alliance seemed to have stopped the referendum juggernaut in November 2003 when they passed legislation to enable national referendums, but under conditions that were impossible for Chen to meet in time for a March 2004 vote.³⁴⁶ Nevertheless, the Chen administration skilfully made a new law to allow the referendum to skip time-consuming procedure: a "defensive referendum" that could be immediately held in the event that Taiwan's sovereignty was threatened; Chen declared that the precondition had been met when PRC missile deployments targeting Taiwan constituted a threat to sovereignty and he announced that he would proceed with plans for such a vote on 20 March 2004, presidential election day.³⁴⁷ The newly passed Referendum Law stipulated a narrow range of topics for a defensive referendum, and in the end the two questions put before the voters proved anodyne. Responding to a Pan-Blue call to boycott the referendum, many voters declined to ask for ballots, so that the tally failed to reach the level of 50

³⁴³ Yung-ming Hsu (2004), "Referendums and Representative Democracy, A Case Study of Taiwan", *Taiwan Journal of Democracy*, No. 2 (June 2004), p. 17.

³⁴⁴ Zhi-wei Chen (2004), "320 Public Referendum and Analysis of Taiwan Political Development", *Taiwan Journal of Democracy*, No. 2 (June 2004), p. 48.

³⁴⁵ Ibid., Shelly Rigger (2005), p. 20.

³⁴⁶ *China Times*, 28 November 2003, A1.

³⁴⁷ According to Article 17 of the Referendum Law, the president may place national security matters before the public in a referendum when the nation is exposed to an external threat. The measure is known as a defensive referendum. A defensive referendum is a presidential prerogative and does not require the consent of the legislature but only ratification by the Executive Yuan. Trong-rong Chai, *Take Care of Taiwan*, Taipei: FTV Culture Publishers (April 2010), p. 61.

per cent participation by eligible voters, as required in the Referendum Law.³⁴⁸ But although Chen had insisted that succeeding in the referendum was more important to him than his re-election, the failed referendum actually represented a significant victory for Chen: he had not only forced the Pan-Blues to drop their position to referendums in general but had also skilfully mobilized the DPP's core supporters and won the sympathy from independent voters. When the general voters saw the two questions: "Do you agree with strengthening defence and entering into talks with China based on equality?", and "Under the precondition of ensuring Taiwan's sovereignty, dignity and security, do you agree the government should immediately initiate a task force to promote a peace and stability framework for Cross-Strait relations"³⁴⁹ the relative works had already started. However, on the other side, to the DPP core supporters or independent voters, the questions aroused in them an anti-China sentiment which at the same time stimulated their preference to vote for the DPP candidates.³⁵⁰

To promote legislators electoral reform became the DPP government's second strategy against Pan-Blue Coalition obstructionism. The DPP government's major appeal was to reduce the size of legislatures by half which would help the Legislative Yuan to run more efficiently and improve the quality of staff.³⁵¹ The DPP government also advocated reforming the electoral system to replace the SNTV system with a German-style two-vote system, lengthening the legislative terms from three years to

³⁴⁸ *China Times*, "Two Referendum Results", 21 March 2004, A11.

³⁴⁹ Patrick Goodenough (2004), "Taiwan Referendum Plan Takes Shape", *Crosswalk*, 2 February 2004, <http://www.crosswalk.com/1244268/>.

³⁵⁰ Xian-long Zhu (2007), *The Political Situation of Taiwan after DPP in Power*, Macao: Macao Polytechnic Institute, (April 2007), p. 108.

³⁵¹ Tie-zhi Chang, "Reduce Half!, Not the Aim of Congressional Revolution", *China News*, 27 February 2004, A15.

four, (synchronizing presidential and legislative elections, so that the two branches could be brought to account in a single election and the likelihood of a divided government would be reduced), abolishing completely the national assembly, an ad hoc body charged with debating constitutional revisions.³⁵² The reforms the DPP proposed quickly became popular because the long existing problems of the poor quality of legislators' performance had angered the people and so provided the reform with both momentum and public support.³⁵³ The elections driven by personality and clientelism contributed to the overall poor quality of legislators (especially the extremists). Under the SNTV system, there is typically more competition than just one candidate in each district, also each candidate can be elected with fewer votes. Vote buying thus become easier and candidates have more incentives to cultivate the "personal vote" which strengthens intra-party conflicts and weakens party discipline. Politicians are more concerned with their own constituencies and personal career development rather than the demands of party leadership. Therefore, the DPP's proposal made little concrete progress toward implementing the reform because the biggest obstacles to legislative reform were the legislatures themselves.³⁵⁴ It was impossible for major Pan-Blue legislators to do something that would deprive them of their power and interests, even though so many of them had pledged to carry out the reforms in 2001. However, ironically, when the DPP was appealing to the public to demonize the Legislative Yuan, many legislators with negative images also included the DPP's own politicians. The situation had actually weakened its own powers to persuade the public to support this electrical reform.

³⁵² Legislative Yuan Communiqué, *Constitutional Reform*, Vol. 93, No. 36 (2004), pp. 73–112.

³⁵³ Shiang-yuan Sheng and Shih-hao Huwang (2006), "Why Does the Taiwanese Public Hate the Legislative Yuan?", *Taiwan Journal of Democracy*, Vol. 3, No. 3 (September 2006).

³⁵⁴ Zhong-hua Gu, "It is the Time for Congress Revolution", *China Times*, 27 February 2003, p. 15.

6.2.3 Inconsistent mainland policy and invalid provocative diplomacy

The DPP's long term policy was to build an independent sovereign Taiwan; however, when Chen went to office in 2000, he did not declare independence but rather proclaimed a passive Cross-Strait policy, known as the so called "four no's, one have-not": as long as China did not hold the intention of using military force against Taiwan, he would not declare independence, change the national title, put the inclusion of the so called "state-to-state" description in the constitution, promote a referendum to change the status quo in regard to the question of independence or unification, and there was no question of abolishing the Guidelines and Councils for National Unification.³⁵⁵ Nevertheless, while re-examining Chen's speech and actions in the following eight years, it can be found that Chen did not follow this policy coherently but occasionally expressed contrary statements or ambiguous interpretations which were surprising and confusing to the public, especially in his second term. On 3 August 2002, Chen emphasized that the nature of Cross-Strait relations was "each country on each side", but this explanation was a description of the status quo, not a change from the status quo.³⁵⁶ In November 2003, Chen declared a "defensive referendum" would be held on the coming presidential Election Day (20 March 2004), but it would be not be relevant to the sovereignty issue. The aim of this referendum was to consolidate and test people's support for strengthening national defence and Cross-Strait negotiations. In his second term inaugural speech on 20 May 2004, Chen Shui-bian mentioned a new version of the Taiwan Constitution would be

³⁵⁵ Mainland Affairs Council (ROC), "President Chen's 520 Inaugural Speech: Taiwan Stands up: Advancing to an Uplifting Era", <http://www.mac.gov.tw/English/macpolicy/cb0520e.htm>, accessed 7 May 2009.

³⁵⁶ *Liberty Times*, "President: Taiwan Cross Strait, Each Country on Each Side", August 2002

introduced to the people of Taiwan, but that the issues related to national sovereignty, territory and the subject of unification and independence should be excluded from the present consistorial re-engineering project.³⁵⁷ In 2006's Chinese New Year speech, Chen proclaimed that he was considering the abolishment of the Guidelines and Councils for National Unification³⁵⁸ and applying for full membership of the UN (United Nations) under the name "Taiwan". About two weeks later, on 27 February 2006, Chen officially proclaimed that the National Unification Council (NUC) and the Guidelines for National Unification (NUG) would cease to function. This decision was based on the democratic principle of popular sovereignty, the need for the Taiwan's government to safeguard the important principles of upholding democracy and maintaining the status quo, and major consideration of China's continuous intentions to unilaterally change the status quo in the Taiwan Strait by non-peaceful means such as military intimidation and passage of its anti-secession law.³⁵⁹

On 19 July 2007, Taiwan submitted a membership application to the United Nations for the first time under the name of Taiwan but was rejected by the UN Secretariat again, based on Resolution 2758, which was adopted by the UN General Assembly in 1971 recognizing the representatives of the People's Republic of China government as "the only legitimate representatives of China to the United Nations" and expelling representatives of the Republic of China on Taiwan.³⁶⁰ In fact, during Chen's tenure, he was trying to use different ways to push Taiwan's international

³⁵⁷ Office of the President (ROC), "President Chen's 520 Inaugural Address: Paving the Way for a Sustainable Taiwan", 20 May 2004.

³⁵⁸ *Liberty Times*, 27 February 2006, A1.

³⁵⁹ Mainland Affairs Council (ROC), "Position Paper on the National Unification Council Ceasing to Function and the Guidelines for National Unification Ceasing to Apply", www.gio.gov.tw/taiwan-website/4-0a/20060301/2006030101.html, accessed 1 March 2006.

³⁶⁰ *United Daily News*, 20 September 2007, A4.

recognition forward including economic aid and official visits to diplomatic allies, but unfortunately, Taiwan experienced a loss of money and humiliation rather than recognition and respect; diplomatic funds were embezzled by the “brokers” and stopovers in the United States for brief periods before continuing on to other countries became more limited.³⁶¹ To make it worse, the number of countries with diplomatic relations with Taiwan was reduced from 31 to 23; eight countries were lost in Chen’s tenure.³⁶²

Chen actually provided people the impression that he said one thing but meant another. In one way, his inconsistency could be sympathized as a typical impotent reaction to Taiwan’s weak position in the closer Sino-US rapprochement. Some people supported this idea and believed that occasionally provocative rhetoric and actions were necessary as the only way for Taiwan to articulate the existence of its sovereignty to the international community. However, the series of changed policies was often criticized as a tactical manipulation for short term political leverage which was advantageous for Chen to keep his ideological commitment to Taiwan’s independence while placating his core supporters. The strategies later caused greater political controversy and confrontation inside the island increased and even angered

³⁶¹ Taiwan's leaders have in general been granted permission to stopover in the United States for brief periods before continuing on to other countries. In 1995, Lee Teng-hui was granted a visit to Cornell University. However in 2006, after eleven years, on 3 May 2006, while Chen pass through the United States on his way to Latin America, he was hoping to stop by either San Francisco or New York City to refuel and stay overnight, but the US refused his request instead limiting him to a brief refueling stopover in Anchorage, Alaska where Chen would not be allowed to step off the plane. Chen and Taiwan saw this as a snub and led to Chen's cancellation.

³⁶² *Taiwan News*, “Taiwan sever diplomatic ties with Malawi — MOEA accuses Beijing of using bribery, threats to lure allies away”, 1 January 2008, p.1.
http://www.taiwannews.com.tw/etn/news_content.php?id=586629

Table 6.2: Chen’s “four no’s, one have-not” and the later inconsistent mainland policy

	Chen’s “four no’s, one have-not”	The later contrary or ambiguous policies
1	Taiwan would not declare independence	3 August 2002 Chen emphasized the nature of cross strait relations was “each country on each side”
2	Taiwan would not change the national title	19 July 2007 Taiwan submitted a membership application to the United Nations
3	Taiwan would not push forth the inclusion of the so called “state-to-state” description in the constitution	20 May 2004 a new version of the Taiwan Constitutions would be introduced to the people of Taiwan
4	Taiwan would not promote a referendum to change the status quo	November 2003 the “defensive referendum” would be held
5	There was no question of abolishing the Guidelines and Councils for National Unification.	27 February 2006 Chen officially proclaimed that the National Unification Council (NUC) would cease to function and that the Guidelines for National Unification (NUG) would cease to apply.

Source: Author’s compilation

the external policy makers in Beijing and Washington, which might have provoked a war despite it was not the intention of either side. In fact, as mentioned in the previous section, after the 1995–1996 Cross Strait crisis, Washington had started to eliminate

strategy ambiguity and left little space for Taipei's manipulation of US support.³⁶³ Washington's concerns were: keeping the stability of the Taiwan Strait; constant benefits from arms sales for the Taiwan government; and opposing any unilateral change of cross strait status. Therefore, any provocative or radical rhetoric or actions from either side of the straits was to be suppressed by Washington; the White House anticipated more efficient talks and negotiations between the two sides.³⁶⁴

For China, Beijing learned lessons from previous experience that any intervention in Taiwan's major elections could have a counter-productive effect. The best strategy for Beijing was to utilize the United States to suppress Taiwan while China and the United States gradually gained common interest.³⁶⁵ In Beijing's mind, the Taiwan issue would not delay or undermine China's long-term policy goal – the progress of China's economic development unless the cross strait relations became unstable. As long as China persisted with a certain degree of PLA military threats on Taiwan, Beijing could make use of this US political leverage to suppress any Taiwanese independence movement.³⁶⁶ On 10 December 2003, when US president George W. Bush met with Chinese Premier Wen Jiabao, he publicly criticized Taiwan's advocacy of peaceful referendum, clearly opposing the proposal and defining the action as being with intent to unilaterally change the status quo.³⁶⁷ In

³⁶³ Ibid., Nancy Bernkopf Tucker (2005), p. 199.

³⁶⁴ Ibid., p. 200.

³⁶⁵ Chen-yuan Tung (2005), "Cross- Strait Relations After Taiwan's 2004 Presidential Election: A New Era of Constructive Interaction or Spiral Conflicts", *American Journal of Chinese Studies*, June 2005, p. 515.

³⁶⁶ Yun-han Chu and Andrew J. Nathan (2007), "Seizing the Opportunity for Changes in the Taiwan Strait", *Washington Quarterly*, Vol. 31, No. 1, (Winter 2007–2008), p. 78.

³⁶⁷ *United Daily News*, 10 December 2003, A2.

early February 2004, about one month before the presidential election, Beijing urged Washington to intervene more decisively to prevent Taiwan from holding the peace referendum on 20 March 2004.³⁶⁸ In 2005, the PRC National People's Congress passed the Anti-Secession Law, which threatened the use of "non-peaceful means" in the event that Taiwan seceded from China.³⁶⁹ To make this threat credible even in the face of potential US intervention, Beijing also reiterated several times that China would pay any price to deal with the Taiwan issue Even if it meant not hosting the 2008 Olympic Games.³⁷⁰

While political relations were still in deadlock, Cross-Strait economic interaction continued at a rapid pace in Chen's term, China had been Taiwan's largest export market since 2002 and largest trade partner since 2003.³⁷¹ The economic issues, including reducing the restriction of Taiwan's investment to China, allowing China's investment in Taiwan, three direct links (direct trade, postal, and transportation links), the protection of rights and interests of Taishang, had all forced the DPP government to modify various regulations and seek for more effective negotiation with China.³⁷² In the 2001 New Year's speech, Chen's administration discarded the long held "no haste, be patient" policy and adopted a new policy of

³⁶⁸ Joseph Kahn, "Beijing Urges Bush to Act to Forestall Taiwan Vote", *New York Times*, 6 February 2004, A3.

³⁶⁹ The Anti-Secession Law formalized the long-standing policy of the People's Republic of China to use "non-peaceful means" against the "Taiwan independence movement" in the event of a declaration of Taiwan independence. The Law is composed of ten articles. Articles one to five are basic guidelines. Articles six to nine set out in general terms the procedures for promoting cross-strait relations, negotiation, and resolution of the issue. Article ten sets the date of operation.

³⁷⁰ Xian-long Zhu, *Cross Strait Relations after Chen Shui-bian in Power*, Macau: Macao Polytechnic Institute, Publishers (March, 2006), p. 100.

³⁷¹ Ibid., Chen-yuan Tung (2005), p. 507.

³⁷² Ibid., Yun-han Chu and Andrew J. Nathan (2007), p. 82.

“active openness and effective management” to relax its regulation on cross strait investment.³⁷³ Taiwan’s investors were allowed to invest in China’s high-tech industry and investment projects over US\$20 million were to be reviewed and would be rejected and prohibited if the project was in excess of US\$50 million. In the 2006 New Year’s speech, Chen announced that the policy of “active openness and effective management” would be changed to “active management and effective openness” which was very confusing because it was very difficult to distinguish how this differed from 2003’s policy.³⁷⁴ Among several issues about how expand cross strait economic interaction, the direct link had become the major issue of the negotiation. Since the second half of 2003, Taiwan had indicated increased commitment to the negotiation of direct transportation links. On 31 March 2004 (interview with *Wall Street Journal*), 10 October 2004 (ROC National Day address), and 10 November 2004 (National Security Meeting statement), Chen reiterated Taiwan’s willingness to promote three direct links (trade, transportation, and postal services) and pledged to resume direct links with China by the end of 2004.³⁷⁵ In fact, Beijing’s attitude to negotiations of three direct links was considered more flexible and to send signs of conciliation. On 17 December 2003, Beijing issued a policy paper on promoting direct links between Taiwan and China, and in March 2004’s National People’s Congress Beijing stressed that no matter who won Taiwan’s election and wanted to negotiate with China over direct links, Beijing would cooperate and push for three direct links across the Taiwan Strait. After Chen was re-elected as Taiwan’s president in May

³⁷³ *Commercial Times*, 1 January 2001, p. 1–2.

³⁷⁴ *United Daily News*, 2 January, A1–2.

³⁷⁵ Jason Dean, “Taiwan’s Chen Touts Peace, Bigger US Role in Region”, *Wall Street Journal*, 1 April 2004, A12; “President Chen’s Address to the National Day Rally”, Office of the President (ROC), 10 October 2004; “President Chen Presides over a High-level National Security Meeting”, Office of the President (ROC), 10 November 2004.

2004, Beijing express its hope that both sides should not politicize the result and should continue promoting economic exchange, despite the fact that President Chen did not recognize the One-China principle.³⁷⁶ In fact, in early January 2003, both sides across Taiwan Strait reached an agreement and implemented passenger chartered flights during the lunar New Year holidays.³⁷⁷

6.2.4 Corruption and the decline of the DPP

While people were still in confusion and shock from the 3-19 shooting accident which was widely believed to be a set-up to help Chen win the re-election campaign in 2004 through earning sympathy votes,³⁷⁸ the outbreak of a series of scandals in the middle of 2006 – centred on the Chen Shui-bian family and the president's office, including his wife, son-in-law and inner circle – had a destructive impact on the DPP administration and its possible loss in the coming 2008 presidential election. Chao Chien-ming, Chen's son in law, was taken into custody by the Taipei police on charges of insider trading and embezzlement. Chen's wife, Wu Shu-chen, was also accused of pocketing special government funds including confidential expenses on president and foreign affairs, illegal trading in stocks and taking bribes from large private banks and enterprises. Some high ranking government officials in the presidential office were also accused of being collaborators and laundering the illegal

³⁷⁶ Ibid., Chen-yuan Tung (2005), pp. 519–520.

³⁷⁷ *United Daily News*, 27 January 2003, p. 2.

³⁷⁸ Chen was shot in the stomach while campaigning in the city of Tainan on Friday, 19 March 2004, the day before polls opened. The following day, Chen narrowly won the election with a margin of less than 30,000 votes out of 12.9 million votes counted. The Pan-Blue candidate Lien Chan refused to concede and sued both for a recount and for a nullification of the outcome while supporters held a week-long riot led by the Pan-Blues in front of the presidential office in Taipei due to alleged election irregularities throughout the island.

income. The series of scandals not only drastically damaged the DPP government's public support but also stimulated an unprecedented street social movement under the name of the "anti-corruption and depose Bian campaign" in September 2006 after a recall motion to remove Chen from power via a public referendum failed in the Legislative Yuan.³⁷⁹ On 9 September, tens of thousands of people wearing red (the volunteer demonstrators were therefore known as the "Red Army") demonstrated in the streets of Taiwan. According to organizers, around 200,000 to 300,000 people joined the protest outside the presidential offices.³⁸⁰ In fact, since late 2005, the DPP government had begun to be influenced by this series of scandals and suffered a significant electoral setback, especially in the 2005 county mayor election. The DPP kept only eight seats in southern Taiwan, including the Kaohsiung City Mayor election in December 2006.³⁸¹ In early 2008, the DPP won less than 25 per cent of the

³⁷⁹ Of 221 lawmakers in the Legislature, all 119 Pan-Blue and independent legislators voted in favour of the measure, 29 votes short of the two-thirds majority needed to pass the motion. Pan-Green legislators from the president's own party, the DPP, refused to receive ballots. Pan-Green legislators from the allied TSU cast abstaining ballots. No legislator voted against the recall motion. *China Times*, 28 June 2006, A2.

³⁸⁰ The "Million Voices against Corruption" campaign began in August of 2006 when former DPP chairman and long-term democracy and independence activist Shih Ming-te announced that he would launch a protest campaign to force the president to resign. During questioning at the presidential office on the afternoon of 7 August 2006, the president detailed to the prosecutor how he spent the fund and presented relevant receipts and bank remittance statements. On the same day, Shih Ming-te wrote a letter to Chen urging him to resign from office and to admit wrongdoing so as to "set a good example for the Taiwanese people". The proposal was rejected. On 8 August Shih announced his intention to open a bank account and collect NT\$100 from supporters, which would be used to fund a protest in Taipei aimed at ousting the president. On 14 August 2006, Shih and his allies began the fundraising event, raising NT\$9,340,000 on the first day. On 24 August 2006, all donation accounts were closed, and the next day Shih announced that the fundraising campaign had raised NT\$111,211,563 – well over the original amount. On 9 September 2006, the demonstration began as a gathering in front of the presidential office. *China Post*, "Anti-corruption, depose-Chen Totem to Emerge in Taipei", 5 September 2006.

³⁸¹ The Pan-Blue coalition captured 16 of 23 county and city government offices under the leadership

seats in the new Legislative Yuan³⁸² and lost its power finally in the presidential election in March.

Conclusion

After the discussions and historical research of Chapters 5 and 6, several characteristics and patterns of Taiwan's democratic development have been found, and these findings are useful evidence to support the three major hypotheses written in Chapter 2.

Table 6.3 shows a more systematic conclusion of this chapter including the political ideas (including democratic values) of these four presidents, the effects on democratic institutions design and building (the first and second row of Table 6.3), and dynamic change of internal social economic structure and external political economic environment - especially the growing influence from China instead of US. (the third and fourth row of Table 6.3). It is obvious that the determination of insisting on the One China Principle (Chiang Kai-shek was only concerned with mainland recovery; Chiang Ching-kuo pragmatically improved ethnical tensions between mainlanders and local Taiwanese) was strong and effective under the two Chiang's authoritarian control (due to the successful economic growth) even when Taiwan faced international isolation (expulsion from UN) and foreign setbacks (the establishment of US-PRC relations). The idea of the One China Principle gradually became weak and lost popular support as the strong Taiwan consciousness grew

of popular Taipei mayor and KMT Party Chairman Ma Ying-jeou; *China Times*, 5 December 2005, A5.

³⁸² Ibid., The 7th ROC Legislators Election Results, *United Daily News*, 14 January 2008, A4.

Table 6.3: The Typology of Taiwan Democratic History

	Chiang Kai-shek	Chiang Ching-kuo	Lee Teng-hui	Chen Shui-bian
Time	1949–1975 (26 years)	1976–1988 (12 years)	1988–2000 (12 years)	2000–2008 (8 years)
Political ideas	Mainland recovery	Improving ethnical tensions between mainlanders and local Taiwanese	Father of Taiwan and Mr. Democracy	Son of Taiwan
Democratic institutions	Dictatorship and authoritarian control with limited local elections	Taiwanization policy and tolerance on opposition	Five phases of constitutional revision	Defensive referendum and reducing legislators by half
Economy and society	Economic recovery ,US Aid and Import Substitution	Industrial upgrading and liberalization	Deeping Cross Strait economic linkage and “Go Slow, Be Patient Policy”	Direct link and North–South cleavage
Sino-US-Taiwan relations	The Cold War and expulsion from the UN	The establishment of US–PRC relations	The Koo–Wang meeting and 1995–1996 Taiwan Strait Crisis	Inconsistent mainland policy and provocative diplomacy

Source: Author’s own compilation

rapidly when the two Taiwanese presidents Lee and Chen stepped into power after the 1990s. The change also explains and supports Hypothesis 1 mentioned in Chapter 2

that the function of democracy in Taiwan had changed from being the difference between the democratic ROC and communist CCP to being the justification for Taiwan's independence. The strong Taiwanese consciousness of Presidents Lee and Chen (Lee Teng-hui consider himself as Father of Taiwan and Chen Shui-bian treated himself as Son of Formosa) and their appeal to greater political autonomy, and even independence for the island, were very helpful for them to obtain domestic public support and implement their political ideas. However, the research of this chapter concluded that their decision making was another kind of rushed, hasty, ideological manipulation rather than a rational calculation, which caused a blind or inappropriate institutional transplant from other leading countries (Hypothesis 2) when people of the island were still confused about the difference between the parliamentary and the presidential system, the suitable numbers of the legislative body, and the effects of SNTV and the dual ballot electoral system. Of course, in the general public's view, the idea of a defensive referendum as raised by President Chen was certainly not an important direct democratic mechanism, but rather a new term which took time to understand.

Moreover, the growing Taiwanese consciousness mentioned above was not only harmful to rational decision making and reasonable institutional design, it also produced side effects such that the direction of Taiwan's democratic development was gradually distinguished from CCP China and a reject of further political integration with the mainland, as argued in Hypothesis 1. It goes without saying that Chiang Ching-kuo's decision to abolish authoritarian control in his final years and give his power to the first local Taiwanese president, Lee Teng-hui, was actually a milestone in Taiwan's democratic development, however, as discussed in Chapter 6.1, Lee's strong patriotic sentiment toward Taiwan in some aspects also negatively impacted the island's balance of Sino-US confrontation externally (Table 6.3, row 4). The changed

process of the political system from large, cumbersome and overlapping central government with the National Assembly, Provincial government and large Legislative Yuan were actually removed or reduced to the simplified and more efficient central executives and representatives through a series of constitutional reforms that were advantageous to the island's future development; but these changes were also likely to cause a controversy as to whether the process of seeking a modern and effective democratic government on the other side equalled abandoning the “ One China principle” and going to the island's independence. Therefore, when Chen Shui-bian went to office in 2000, the DPP's weakness in the Sino-US intentionally blockade and institutional difficulties of minority government could be considered as the price of Lee's manipulation on political reforms and a provocative mainland policy which was impractical and beyond Taiwan's depth. Chen Shui-bian could not but adopt a cosmetic provocative mainland policy and appeal for the ineffective public referendum, the direct democratic method to bypass Pan-Blue Coalition obstructionism in the legislative bodies. Finally, he made little contribution to the democratic institutions: the notorious legislators were reduced by half but still produced by the unfair single-member district dual ballot system.

Finally, in a political economic analysis (Table 6.3, row 3), China's growing economic power and the decline of US political influence might be the most serious issues for future Taiwanese democratic development, and how to evaluate a proper degree of cross economic interaction had become the most important lesson that any future ROC political leader must face and deal with . After the huge mainland Chinese awakening as they started to enter the international division of labour at the bottom end of the economic product life cycle, along with the international isolation suppressed by Beijing government, Taiwan gradually started to lose its share of global economic advantages which was the fruit of the island's rapid economic recovery

after World War II – successful industrial upgrading and integration into global market during the two Chiang’s authoritarian control period, which were also actually the key factors for Taiwan to keep its political autonomy. Moreover, as predicted in Hypothesis 3 of this research, deeper integration with the Chinese mainland market will also worsen the island’s economic inequality, especially after the rapid cross-strait economic interaction since 1990, and even produced extremist politics in the island’s North and South cleavage which worsened in President Chen’s tenure. The argument needs to be further investigated in the following two chapters.

Chapter 7 Democratic development and Cross Strait Relations after the KMT's return to power in 2008

Introduction

Ma Ying-jeou's landslide victory in the 2008 ROC presidential election helped the KMT to return to the governing role it had played for more than five decades prior to being replaced by the Democratic Progressive Party in 2000. Ma garnered more than 7.6 million votes, or 58.45 per cent, defeating DPP rival candidate Frank Hsieh, who won more than 5.4 million votes, or 41.55 per cent.³⁸³ Ma had unprecedented public support, almost 5 percent more than that of President Lee Teng-hui in his victory in 1996 (54 per cent) and 1.5 per cent more than the other influential mainlander politician, provincial governor Soong Chu-yu in his victory in 1994. The election result demonstrated the following three significant changes of Taiwan democratic development. First, it seemed that the ethnic problems (between mainlanders and local Taiwanese) was not significantly influential in the major election since Ma was not local Taiwanese – born in Hong Kong – and his family were typical immigrants in 1949. Second, along with a more than two-thirds majority in the Legislative Yuan, the victory was also a clear and strong mandate for Ma to be a “President of all people” and for the KMT government to push policies to improve stagnated Cross-Strait relations and bolsters an economy. Finally, some researchers point out there is some similarity between South Korea and Taiwan in 2008 in that people in both countries preferred political stability rather than the chaos caused by democratic struggling. Like Taiwan, the new government of South Korea also faced

³⁸³ *Taipei Times*, “Decisive Victory for Ma Ying-jeou”, 23 March 2008, A1.

<http://www.taipeitimes.com/News/front/archives/2008/03/23/2003406711>.

high pressure from public expectation to cope with the threat from North Korea and bolster an economy that had lagged behind some of its Asian peers.³⁸⁴

After the success in the presidential election, the new administration started work to fulfill Ma's campaign pledge to improve relations with China and reconstruct the island's economy. According to Ma Ying-jeou's plan, the basic idea to improve Cross-Strait relations was stop competition with Beijing in the international arena but seek more space on both-sides negotiations. There were three strategies designed and it was expected to resume dialogue and talks.³⁸⁵ The first step was a Cross-Strait "truce" in the diplomatic arena: to end the tug-of-war with China over each other's allies and carve a greater international presence for Taiwan. The second step was liberalizing Cross-Strait economic restrictions for more economic interactions and greater cooperation. The third step concerned the establishment of a Cross-Strait peace accord, a mechanism set up for mutual military trust, or the signing of a peace agreement between China and Taiwan. Even though this policy could be thought of as sacrificing Taiwan's sovereignty, President Ma Ying-jeou still claimed that this plan could be achieved during his tenure as president,³⁸⁶ and the basic principles of maintaining Cross-Strait peace were "no reunification, no independence and no war" laid out in his inaugural address.³⁸⁷ How to reconstruct the island's economy, the external normalization of cross economic relations and the increase of internal

³⁸⁴ Zeng-jia Tsai, "When there is also One Party Dominance in South Korea", *China Times*, 10 April 2008, A19.

³⁸⁵ *China Times*, "Ma: Constitutional Amendment for Signing the Cross Strait Peace Agreement in his Term", 19 October 2008, <http://tw.news.yahoo.com/article/url/d/a/081019/4/17vx4.html>.

³⁸⁶ *Taipei Times*, "Ma Hopes a Peace Deal while he is in Office", 19 October 2008, <http://www.taipeitimes.com/News/taiwan/archives/2008/10/19/2003426312>.

³⁸⁷ *Sina News*, "Inaugural Speech: Ma Ying-jeou Emphasized the Principle of Three No's and Appealed for Further Cross-Strait Negotiations", 20 May 2008, <http://news.sina.com/int/sinchewdaily/105-103-102-101/2008-05-20/02332912835.html>

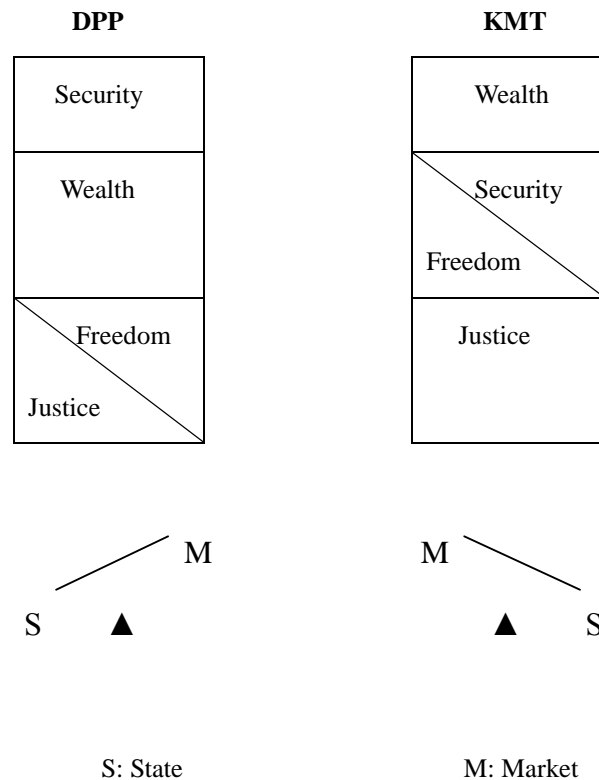
government expenditure to stimulate domestic consumption are basic ideas by which to accelerate economic growth. Government expenditure plans included several packages of proposals, named with slogans consisting of easily remembered digits: “633” policy for macroeconomic targets; “I-Taiwan 12” infrastructure projects for expanding domestic demand by boosting infrastructure investment; “345” strategies for building new industry and global competition; and “468” government subsidies for low income family.³⁸⁸ Seeking a series of efficient negotiations with China for greater cross strait economic interaction and cooperation was viewed as a more important and useful method by Ma’s administration to revive the island’s economy.

As per the discussion of Susan Strange’s IPE theories in Chapter 4, in different societies, the priority of four major values (security, wealth, freedom and justice) will be the deciding factor in various aspects – e.g. market relationships and different orders of political economy. Obviously, the new KMT government had prioritized the creation of wealth over security, freedom, and social justice (Figure 7.1). Taiwan and China reopened cross-strait talks and interaction, but at the same time, revealed other potential political and social problems, including sovereignty controversies (freedom), the changed balance of Sino–US–Taiwan relations (security), and possible worsening of the island’s social economic inequality (justice) which was more serious issues for

³⁸⁸ The “633”, “The I-Taiwan 12 Projects”, “345” and “468” are those slogan designed while Ma Ying-jeou was running his presidential campaign in 2008; The “633” plan was to achieve economic growth of 6 per cent, a jobless rate of 3 per cent and per capita GDP of \$30,000. “The I-Taiwan 12 Projects” was to spend NT\$4 trillion (US\$130 billion) on 12 infrastructure projects before 2016. These projects intended to create 120,000 job opportunities every year. The “345” was to use three strategies, encouraging new industry, innovation and deregulation to attract the inflow of NT\$4 trillion overseas savings and create 50,000 job opportunities; The “468” was the labour tax cut plan for those low income families who would receive NT\$46,800 in government subsidies if their annual income was under NT\$360,000. For more on President Ma Ying-jeou’s economic development and social welfare policy, please see the KMT presidential campaign website “Go Ahead! Taiwan”, <http://2008.ma19.net/policy4you/economy/taiwan12>.

the smaller Taiwan to face.

Figure 7.1: Taiwan's political economy priority had changed after 2008



Source: Author's own compilation

This chapter will focus on these changes and discuss the possible effects on the island's democratic development after 2008. The author will also try to substantiate his argument in the theoretical chapter that although both sides of the strait had taken a big step forward, the rapid Cross-Strait economic interaction did not influence the island's democracy too much since the rules of the games had matured after the second party alternation. In the first section, the author will examine Ma's open-door policy and the major hot issues (direct links, signing of MOU and ECFA) after four

Chang–Chen Talks in the first two years of the KMT administration. The discussion is significant to IPE theorists in that the dramatic change in Cross-Strait relations during 2008–2009 is a good case to test whether new forms of traffic, trade relations, and capital flow would actually influence international politics, especially the special status of Cross-Strait relations between Taiwan and China. The second section discusses the traditional Sino–US–Taiwan triangle issues of arms sales and Taiwan’s participation in international organizations: these issues have been excluded historically from the negotiation tables but still have weight on newly built cross strait relations. The third section examines the global economic crisis that took place at the end of 2008. The impact of this global economic downturn was actually a heavy blow to Ma’s administration and revealed the island’s fundamental economic weakness. In the final section, the relation between the performance of Ma’s administration and the effects of the changes covered in the previous sections will be discussed. Ma’s leadership and the performance of the KMT have been questioned and might have influenced whether it will remain in power after the 2012 presidential election. However, the possible second party alternation seems to not be significant to the island’s democratic development. Like the rapprochement of cross strait relations, the impacts of possible changes are very limited and not so complex since both sides intentionally control the pace of interaction.

7.1 Ma’s open-door policies and Cross-Strait negotiations

As the analysis in Chapter 4.2 showed, compared with the DPP’s protectionism policy during 2000–2008, the new KMT cabinet, led by Premier Liu Chao-shiuan, viewed China as a co-operator more than competitor, and the Cross-Strait relation should be a bilateral complementary and equal interdependent interaction rather than

Taiwan's unilateral asymmetric dependence on mainland market. Similar with vice president Vincent Siew's "blood flow" theory, President Ma defined his open door policy as a "living water strategy" rather than the "iron cage ideology" during the DPP ruling period, which is attributed to be the major reason for the slow economic development between 2000 and 2008.³⁸⁹ The normalization of Cross-Strait economic relations means that unrestricted interaction will create a new division of labour according to the mutual comparative advantages both in the mainland and on the island.

The new cabinet started to "open the door" to the mainland when it was inaugurated in May 2008 to mainland including a series of deregulation and cooperation policies which were believed to be helpful in reducing the transportation costs and utilizing cross strait resources. Until July 2008, the KMT's open-door policy consisted of 15 deregulation projects in five major fields (Table 7.1), including encouraging the FDI (including overseas Taiwanese companies and Taishang) (Field 1), losing the limitation of cross strait economic and commercial exchanges (Field 2), facilitating mainland tourists, professionals, and talent flows (Field 3), direct links (Field 4), and building up a cooperation mechanism for cracking down on Cross-Strait criminals (Field 5).³⁹⁰ The cabinet proclaimed that the series of policies would be finished by the end of 2008 and there would be a further 23 deregulation and liberalization projects implemented in 2009. An interesting economic report describes the series of policies as the lifting of "economic martial law" but impacting on cross strait relations at this time.³⁹¹ In fact, the series of open-door policies were mostly

³⁸⁹ Lei Zhu, "Victory in Economy – Review of Ma Ying Jeou's Economic Policy", *China .Org.Cn*, 4 April 2008, http://big5.china.com.cn/overseas/txt/2008-04/04/content_14277429_2.htm.

³⁹⁰ *Economic Daily News*, "The Coming of Mainland Capital, Five Filed are Liberalized," 26 July 2008.

³⁹¹ *United Daily News*, "The Lift of Economic Marital Law, Forty Six Cross Strait Items Liberalized at

achieved in the cross negotiations known as the Chen–Chiang Talks, which had been held seven times before the end of 2011 (Table 7.2).

Table 7.1: KMT Open-Door policies between 2008 and 2009 (CC Talk(s): Chiang–Chen talk(s))

No	Field	Items	Achieved
1	Encourage	Asia Pacific financial centre	
2	FDI	Encourage investment a. Return of overseas Taiwanese company b. Widening the prohibited and limited investment (range)	
3	Cross strait economic and commercial exchange	Taiwan stock, futures and venture companies are allowed to invest in China	The third CC Talk
4		Widening the prohibited and limited investment (range)	
5		Chinese capital invest in Taiwan stock market	
6		Chinese capital invest in Taiwan infrastructure, service and manufacture industry (not housing sector)	
7		QDII	
8	Mainland professionals	Simplified commercial visa application procedure	
9		Widening mainland professionals' technology interaction	
10	Direct links	Daily charter flights	The first to third CC Talks
11		Regular freight flights	
12		Direct shipping	
13		Direct postal services	
14		Expanding "small direct links" scale	
15	Others	Joint mechanism to combat crime	The second CC Talk

Source: Author's compilation

Table 7.2: Cross-Strait negotiations between 2008 and 2010 (CC Talk(s): Chiang–Chen talk(s))

Meeting	Time and place	Issues and consensus
First CC Talk	12 June 2008 Beijing	1. Regular 36 weekend cross-strait Direct charter passenger flights 2. Daily 3,000 Chinese tourists visiting Taiwan
Second CC Talk	4 November 2008 Taipei, Taiwan	3. Regular 108 daily cross-strait direct charter passenger flights 4. Direct maritime shipping 5. Direct mail service 6. Public food security
Third CC Talk	26 April 2009 Nanjing, China	7. Regular 270 daily cross-strait direct charter passenger flights 8. Financial cooperation 9. Joint force to combat crime
Fourth CC Talk	22 December 2009 Taichung, Taiwan	10. Fishing crew cooperation 11. Agricultural and food quarantine inspection 12. Industrial production standards, inspection and certification
Fifth CC Talk	29 June 2010 Chongqing, China	13. Signing of ECFA 14. Properties Rights protection
Sixth CC Talk	20 December 2010 Taichung, Taiwan	15. Sharing medical information and cooperating in development of new drugs
Seventh CC Talk	20 October 2011 Tianjin China	16. Seal Nuclear Safety Pact

Source: Author's compilation

Under the 1992 consensus basis,³⁹² pragmatic matters – mainly concerning economic issues including direct links and various cooperation proposals – had been discussed on a six-monthly basis from June 2008 to December 2009.³⁹³ These new institutionalized cross strait negotiations were expected to be more efficient for the prevention of sovereignty disputes via the non-governmental (or semi-official) organizations such as ARATS (Associations for Relations Across the Taiwan Straits, headed by Chen Yun- lin) and SEF (Strait Exchange Foundation, headed by Chiang Pin Kung, former ROC economy affairs minister). In the 16 agreements completed in the seven rounds of CC Talks, the issues of direct links, mainland tourists, the signing of the MOU (Cross-Strait Financial Cooperation) and ECFA were the major foci popularly discussed in 2008–2009. As described in the introduction, the discussion was significant to IPE theorists in that the dramatic change in cross strait relations during 2008–2009 is a good case to test whether new forms of traffic (direct links), trade relations (ECFA), and capital flows (MOU) can actually influence international politics, especially the special status of cross strait relations between Taiwan and China. The following paragraphs hold the details and analysis of these four major issues.

³⁹² Before the inauguration of Chiang–Chen Talks, the KMT’s highest-level leaders, including ROC vice president elect Vincent Siew and KMT party chairman Wu Po-hsiung, had separately met PRC president Hu Jintao in Bo’ao (April) and Beijing (May) and reached a consensus for greater economic cooperation and mutual respect to each other’s political stance.

³⁹³ *Central News Agency*, “Lai Shin-Yuan: SEF and ARATS will have Regular Meeting every Half an Year”, 24 September 2008.

7.1.1 Direct Links and Mainland tourists

In the nine agreements signed in the first three rounds of the Chen–Chiang Talks, five are related with direct links issues, the cross-Taiwan Strait flights were in particular a main focus in the negotiations. The 36 weekend charter flights (confirmed in the first CC Talk) was expanded to 108 daily chartered ones (confirmed in the second talk), and even later to 270 regular ones (confirmed in the third talk). Passenger flights were also allowed to carry cargo, and the cross-strait carriers were able to extend their flights to more than one city in China (Pudong and Guangzhou) and Taiwan (Taoyuan and Kaoshiung). The right to provide connecting flights was also confirmed in the third talk, known as the “fifth freedom of the air”, meaning that an airline could carry passengers from one country to another, and then on to a third country.³⁹⁴ In fact, in 2008 the weekly flights between Taiwan, Hong Kong and Macau were estimated at 600–700, which meant there was still a significant opportunity to expand regular cross-strait flights.³⁹⁵ The right of the “fifth freedom of the air” would also be advantageous for Taiwan’s airline companies if China agrees to Taiwan’s airplanes flying through broad air territorial space, since Taiwan’s airline companies have enjoyed the reputation of offering better service and stronger cargo transportation. So far, China is still considering this issue and it will become the major focus for the traffic department of Taiwan’s government in the next rounds of Cross-Strait negotiations.³⁹⁶

³⁹⁴ Shelley Shan, “Expansion of Air Service next on Cross-Strait Agenda,” 17 March 2009, *Taipei Times*, p. 3.

³⁹⁵ *China Times*, “Welcome to New Era of Cross Strait Relations after Direct Link”, 15 December 2008, A13.

³⁹⁶ *NOW news*, “Will the Five Freedom of the Air Discussed in the 4th Talks? Transportation and Communication Ministry will Reflect Opinions to MAC”, 19 October, 2009,

The “fifth freedom” refers to the right which allows an airline to carry revenue traffic between foreign countries as a part of services connecting the airline's own country. It is the right to carry passengers from one's own country to a second country and from that country to a third country (and so on). In the previous cross strait flights, the airlines had four freedoms of the air: to fly over a foreign country without landing (1), to stop in one country solely for refueling or other maintenance on the way to another country (2), to carry passengers or cargo (3), and to carry passengers or cargo from another country to one's own (4). If Taiwan does receive the fifth freedom on the China's air territorial space, Taiwan's airline companies will become more competitive as the new air-routes via the Chinese mainland will be very economical and beneficial. The best example is a flight to Europe: the airplanes do not need to pass via Hong Kong or Bangkok which is good for time and fuel saving. In addition, the growing numbers of passengers and cargo transportation in the Chinese mainland undoubtedly has foreseeable economic benefits for the major airline companies; no matter they are Taiwanese or Chinese. Moreover, it is also helpful for Taiwan's airline companies to exchange the Asia–Europe air route. (i.e. Hong Kong to London) for the Asia–America air route (i.e. Hong Kong to Los Angeles).³⁹⁷

Direct Maritime Shipping also brings benefits for the island's economy. After direct links, voyages from Taiwan to the mainland do not need to detour and are expected to save an average of 16–27 hours which is a 15–30 per cent cost reduction. The 1.2 billion total transportation cost can be saved annually in the total 4,000 cross strait voyages.³⁹⁸ For the other industries, the direct links, especially the air flight, is

<http://www.nownews.com/2009/10/19/301-2521428.htm>.

³⁹⁷ Interview with Mr. Jia-rong Sun, the former captain of Eva Air, the biggest airline company in Taiwan, 1 May 2009.

³⁹⁸ *United Daily News*, “After Four Agreements Signed, it only takes 82 Minutes from Taoyuan to Shanghai”, November 4 2008, <http://udn.com/NEWS/NATIONAL/NAT2/4586503.shtml>.

also very advantageous for the shipping of high-tech and fresh agricultural products from the island.³⁹⁹

However, the direct link does not influence the island's public too much: passengers on the direct flights are mostly composed of Taishang and mainland tourists.⁴⁰⁰ Meanwhile, the lower shipping transportation cost is not a strong enough motive for the Taishang to move their investment back to the island. As an interviewee said, people do not have strong feeling about the convenience and economic benefits the direct link had brought as most people on the island do not need to take cross strait flights very often.⁴⁰¹ A similar situation happened with respect to the arrival of mainland tourists. Although after the first Chen–Chiang Talk, both sides achieved a consensus that there would be 3,000 mainland Chinese tourists visiting Taiwan daily, the “slow coming” of mainland tourists in the first couples of months disappointed the public; the average number of daily mainland tourists before August 2008 was only 260, which is obviously far less than the estimated numbers according to the agreed quota of 3,000 mainland visitors made by the ROC tourism bureau.⁴⁰² The complex application procedure and strict regulations for national security considerations made by the Taiwan government are believed to have reduced tourists' incentives to visit;⁴⁰³ similar complex regulations of the Chinese government in order to control the “quality” and “quantity” of visitors for fear of unexpected

³⁹⁹ Interview with Mr. Shou-shen Chen, the deputy manager of Yang Ming Marine Transport Corp, which is one of major marine transportation companies in Taiwan, 12 December 2009.

⁴⁰⁰ Chou-hua Chang, “Direct Link Chartered Flight, the Spring of Aviation Industry”, *China Times*, 5 July 2008, A19.

⁴⁰¹ Interview with Mr. Wu Yi-long, the general manager of the travel service the Dragon Group, 16 November 2009.

⁴⁰² *China Post*, “One in Three Unimpressed by Chinese Tourists: Survey”, 11 May 2009, <http://www.chinapost.com.tw/print/207634.htm>.

⁴⁰³ For example, mainland tourists must travel as a group and stay in Taiwan no longer than ten days.

events (such as some Chinese tourists making use of the opportunity of a trip to stay longer illegally in Taiwan, or conflicts with local Taiwanese over political issues) are also believed to have been influential to the movement of mainland tourists. For example, the PRC government stipulated that the tourist must pay a RMB 50,000 deposit in advance; this limitation has obviously become another kind of mechanism for classification: only rich people will not disturb Taiwan's society or leave bad images.⁴⁰⁴ Looking at the Hong Kong experience, it is predicted that it might take Taiwanese people five to six years to get used to and develop a suitable way to accommodate the mainland guests.⁴⁰⁵

The visiting of mainland tourists is also political. Taiwan is attractive to the Chinese not only for its beautiful scenery⁴⁰⁶ or luxury shopping malls like the one in Hong Kong, in the Chinese people's mind, Taiwan is a "renegade province" which Chiang Kai-shek fled to in 1949 and it must be returned to the mainland someday. However, while mainland tourists enjoy feeling the winner in the civil war, Taiwan's democratic development and good service do actually impress them and are undoubtedly advantageous for further cross strait interaction. According to a ROC tourism bureau investigation, 86 per cent of mainland tourists are satisfied with the tour service and legal assistance when they visit Taiwan.⁴⁰⁷ Another interesting investigation pointed out that the Taiwanese political talk show TV programmes are mainland tourists' favourites when they stay in a hotel, even though the members of

⁴⁰⁴ Jing-qing Zhong, "The Deposit is the Major Boundaries for Mainland Tourists to Visit Taiwan", *China Times*, August 6, 2008, A12

⁴⁰⁵ Zhi-qiang Tan, "HK's Experience of Mainland Tourists", *China Times*, 1 July 2008, A19.

⁴⁰⁶ Mainland tourists are very interested in visiting Ali Mountain and Sun Moon Lack. The psychology is believed to have been developed by the general CCP official impression of Taiwan.

⁴⁰⁷ *China Times*, "Mainland Tourists are Predicted above 1.5 Million this Year", 3 June 2010, <http://tw.news.yahoo.com/article/url/d/a/100603/4/26rqi.html>.

Falun Dafa occasionally protest in front of them. This good news explains why Chinese tourists not only bring economic benefits, but also opportunities for Taiwan to promote ideas of democracy.

7.1.2 Memorandums of Understanding or MOUs

The centrepiece of the third Chen–Chiang Talk was a joint statement agreement regarding setting up a Cross-Strait financial cooperation mechanism, a regular framework for financial services on both sides to invest and do business in each other's market. The two delegates signed memorandums of understanding (MOUs) on banking, securities and futures, and insurance shortly after a third round of cross-Taiwan Strait talks was slated to be held 25–29th April 2009 in Nanjing.⁴⁰⁸ The MOUs covered bilateral financial supervision cooperation, the establishment of a currency settlement mechanism (a clearing system between Taiwan dollars and RMB) increasing access to each other's financial markets, and the establishment of a system to help Taiwanese businessmen in China to obtain loans.⁴⁰⁹ The two sides also agreed to gradually set up a consensus that the Taiwan government allow a certain form of Chinese investment into Taiwan. Specifically, the pact would allow Taiwan banks to set up branches or subsidiaries in China and provide Chinese Yuan services. Although in July 2008 Taiwan had authorized some 1,240 local bank outlets to begin exchanges between New Taiwan dollars and the Chinese Yuan, with a daily transaction limit of 20,000 Yuan per person per day and Taiwan's banks bought Chinese Yuan mainly

⁴⁰⁸ *The China Post*, “MOUs to be Signed in Nanjing”, 20 April 2009,

<http://www.chinapost.com.tw/taiwan/china-taiwan-relations/2009/04/20/204964/MOUs-to.htm>.

⁴⁰⁹ *The China Post*, “SEF Chair Chiang Arrives in Nanjing for Cross-Strait Signing”, 26 April 2009,

<http://www.chinapost.com.tw/taiwan/china-taiwan-relations/2009/04/26/205713/SEF-chair.htm>.

from the HSBC and Bank of America, the supplies of Yuan were insufficient and the cost of buying the Chinese currency was too high, as China's monetary authority had yet to promise to provide Taiwan with Yuan on a regular basis.⁴¹⁰ The agreement also included relaxing the restrictions on foreign insurance companies wishing to set up companies in China, and the lifting restrictions on Chinese investment in Taiwan's real estate, services and manufacturing sectors.⁴¹¹

Taiwan MAC Chairman, Lai Shin-yuan said that opening up to investment from China would be an important step in normalizing trade and economic ties across the strait. She said the one-way movement of investment from Taiwan to China over the past 20 years has tilted the balance of cross-strait capital flows.⁴¹² Taiwanese financial firms have been clamouring to enter China's fast-growing market. Their executives say Taiwanese banks, some of which have offices in China but cannot offer banking services there (i.e. in 2002, the seven major Taiwanese banks including the First Bank and Chang Hua Bank had set up branch offices in the mainland, but could not work for 7 years), particularly could serve the estimated one million Taiwanese business people based in China.⁴¹³ Once a banking MOU is inked, Taiwan's banking and financial industry is expected to post a 20 per cent growth for five consecutive years thanks to the potential benefits from wealth management services, including an estimated NT\$3,000 billion increase in loan demand, NT\$80 billion in net interest revenue and NT\$8 billion in service fees, according to a foreign bank with operations

⁴¹⁰ *Radio Taiwan International*, "Central Bank: Chinese Yuan is Insufficient on the Market, Need is 2.5 to Supply", 19 April 2010, <http://tw.news.yahoo.com/article/url/d/a/100419/58/2451u.html>.

⁴¹¹ *Reuters*, "China, Taiwan in Landmark Financial Services Deal", 26 April 2009, <http://in.reuters.com/article/marketsNewsUS/idINTP34815320090426>.

⁴¹² *SinaNews*, "Lai Shin-yuan Explained the 3rd CC Talk Issues", 23 April 2009, <http://news.sina.com/000-000-101-103/2009-04-23/0237577281.html>.

⁴¹³ *China Times*, "Welcome to the New Era of Cross-Strait Financial Cooperation", 27 April 2009, A15.

in Taiwan.⁴¹⁴ The future scale of Taiwan's banking and financial industry is predicted to expand to 30 times the current level.⁴¹⁵ In fact, the signing of the MOU had actually brought the island significant positive economic effects: High hopes for both deals supercharged Taiwan's stock market in 2009, making it the world's second best performer after only Shanghai. Taiwan stocks are up 28 per cent years to date, compared with a 4 per cent decline for the S&P 500. Taiwan's banking and insurance sub-index has rallied 33 per cent since the beginning of March 2009 alone, with foreign investors pumping a net NT\$63.2 billion (US\$1.9 billion) into Taiwan stocks over that period as the island is increasingly seen as the next big China play.⁴¹⁶

National and economy securities are still the major worry for the Taiwan government and businesses after the establishment of this closer economic interaction. Taiwan worries that almost all Chinese investment abroad uses state-owned capital, which draws on the political influence of the Chinese Communist Party. In the case of China's strategic withdrawal of investment, Taiwan must be prepared to take over key businesses in the interests of national security. Meanwhile, Taiwanese financial institutes also find that it would be hard to compete with their much bigger Chinese counterparts.⁴¹⁷ Moreover, the benefits from China's purchase and investment were over-estimated in 2009, although there are already three waves of procurement missions from China have come to Taiwan and the Ma's administration predict the purchase will be close to US\$10 billion in consumer electronics, processed foods, and other goods, the total amount of Chinese purchase after official contract is only half of

⁴¹⁴ Ibid., *China Post*, 20 April 2009.

⁴¹⁵ *Wealth Invest Weekly*, "The Layout of MOU, the Sweet Dream of Stocks in Financial Sector", 4 July 2009.

⁴¹⁶ Ibid., *Reuters*, 26 April 2009.

⁴¹⁷ DPP spokesman Wen-tsang Cheng, "Pacts Deepen Economic Ties, Add Flights", *Taipei Times*, 27 April 2009, p. 1.

prediction, about US\$5 billion.⁴¹⁸ Taiwan has also opened its door to welcome China's professional investors, QDII (the qualified domestic institutional investor) going to the Taiwan stock market⁴¹⁹ Taiwan also hopes that mainland business will invest more in the manufacture and service industries and "I-Taiwan 12" infrastructure projects.⁴²⁰

On the other hand, from China's investment perspective, Chinese investors feel Taiwan's worry might be too much and "selfish" and that the major investment from the mainland so far is actually policy driven, not market driven. The investment could be considered as a "favour" or "gift" from the CCP government in order to win Taiwanese public support. If the Cross-Strait trade follows the principle of a free market, the capital flow from China to Taiwan would be much less than the current volume. In other words, the main objective of Chinese businesses investing in Taiwan would be more interested in gaining access to high-tech companies and acquiring key technologies. For example, China has shown great interest to cooperate with Taiwan's telecommunication industry, such as the Far Eastone Telecommunications cooperation, one of the major telecom companies on the island. Taiwan's companies are also very willing to cooperate with China since there is a foreseeable huge mobile phone market in the mainland.⁴²¹ However, the preference is obviously; this sort of cooperation is considered as potentially dangerous to Taiwan's economic security. The Taiwan government also strictly limits Chinese investment in the media and defence

⁴¹⁸ *Liberty Times*, "The Government Exaggerate the Benefits of China's Procurement", 10 November 2009, <http://www.libertytimes.com.tw/2009/new/nov/10/today-fo3.htm>.

⁴¹⁹ *cnYES*, "Chen Shu: Chinese QDII is Expected to Bring 337 Trillion and 5 Billion NT to Taiwan, MOU Next Step for Less Limitation", 31 July 2008, http://tw.stock.yahoo.com/news_content/url/d/a/080731/2/12mno.html.

⁴²⁰ *Ibid.*, *Taipei Times*, 27 April 2009, p. 1.

⁴²¹ *Bloomberg News*, "Taiwan Expects China Pact to Improve Competitiveness", 15 December 2009, <http://www.bloomberg.com/apps/news?pid=20601087&sid=a.VFVAOjkID0&pos=7>.

industries for fear that it would be harmful to national security and public opinion.⁴²²

To sum up, the diversified expectation of both sides on the objectives of investment indicates that normal cross strait capital flow still has a long way to go.

7.1.3 Economic Cooperation Framework Agreement or ECFA

In the fourth Chen–Chiang Talk, President Ma pressed hard for the delegates to sign a free trade-style agreement with China, known locally as Economic Cooperation Framework Agreement or ECFA. The decision of Ma’s administration was built on two main ideas: Firstly, an ECFA would avoid the further marginalization of the export-dependent Taiwan economy in the subsequent five years, once a FTA between China and the Association of Southeast Asian Nations (ASEAN+1) took force in 2010.⁴²³ The grouping of ASEAN 10+1 would include China; ASEAN 10+3 in 2011 will incorporate Japan and South Korea in an FTA; and ASEAN 10+6 would then include Australia, New Zealand and India. Without an ECFA, Chinese customs charges would be 5 per cent to 10 per cent greater than those applying to ASEAN exporters.⁴²⁴ Taiwan is geographically and economically close to ASEAN although Taiwan is not part of the grouping. In 2007, ASEAN 10+3 accounted for 54 per cent of all Taiwanese exports and 75 per cent of all Taiwanese FDI. The addition of China to ASEAN would thus be hazardous to Taiwan as 40 per cent of its exports already go

⁴²² Ibid, *Taipei Times*, 27 April 2009, p. 1.

⁴²³ Jane Rickard, “Overprotest, Taiwan moves toward Free Trade with China”, *Washington Post*, 23 December 2009,
<http://www.washingtonpost.com/wp-dyn/content/article/2009/12/22/AR2009122203416.html>

⁴²⁴ Wun-long Lin, “Pros, cons of a Cross-Strait ECFA”, *Taipei Times*, 27 December 2009, p. 8.
<http://www.taipeitimes.com/News/editorials/archives/2009/12/27/2003461972>.

there.⁴²⁵

The second concern of Ma's administration regarding the ECFA was the deeper worry that Taiwanese competition in China's growing domestic market would decrease and be replaced by the other competitors if Taiwan did not sign the agreement. In fact, according to statistics, products supporting mainland China's domestic needs are mainly from ASEAN exports (at least 50 per cent) and only 30 per cent are Taiwan export products.⁴²⁶ As the analysis above mentions, the centrepiece of Taiwan's economic strategy could not be anything other than more open trade and investment with mainland China, an immediate advantage for Taiwan to increase the size of the island's economy by deeper integration with China – the world's third-largest economy with an estimated GDP in 2007 of US\$7.973 trillion, China has great potential in terms of consumer purchasing power. Meanwhile, after the global financial crisis in 2008, the result of systemic failure in the global financial markets, the post-World War II pattern of interdependent growth between Asian exporters and Western consumers is under strain and the gradual transition in China from export-focused growth strategies led by heavy investment in "hard" infrastructure toward a more sustainable economic model demonstrates that China's market has changed from a "growth" stock to a "value" stock, where growth is less dependent on Western consumer pockets than those of Chinese consumers and small businesses. In terms of raw growth, the days of 14 per cent GDP gains in the 1990s and 12 per cent GDP gains earlier this decade are gone, to be replaced (after the post-crisis bounce) by

⁴²⁵ Taiwan was excluded by ASEAN owing to its status of a non sovereignty state. *China Times*, "If FTA replaced WTO, Taiwan will have no Play in the Next Years", 23 October 2006, <http://blog.xuite.net/changchih228/changchih228/8651636?ref=rel>.

⁴²⁶ Gui-fen He, "The Huge Treat of ASEAN + 3: The East Asia Economic Integration, the Key 5 Years for Taiwan", *Commonwealth Magazine*, No. 434 (November, 2009).

long-term growth of about 8 per cent annually.⁴²⁷ For Taiwan, if the ECFA were to be successfully established, the Taiwanese businesses would make use of the cheap labour and natural resources in the integrated ASEAN regional economy and then export the products to the mainland market. In addition to this competitiveness, the change would also be advantageous for reducing the island's economic dependence on China since Taishang will invest more in South East Asian countries and even go back to the island when the environment in China is actually getting worse, especially those provinces along the coast where gradually Taishang cannot find labourers even though wages are higher than ever before.

The potential impacts of ECFA are listed by several ROC officials and research institutes. The Chung-Hua Institution for Economic Research (CIER), commissioned by the Ministry of Economic Affairs, predicts that the deal could increase Taiwan's annual GDP growth by between 1.65 per cent and 1.72 per cent. The increase might be even bigger if a multiplier effect is taken into consideration. Exports will increase by between 4.87 per cent and 4.97 per cent. Otherwise, if Taiwan does not have any response when the ASEAN +1 is in effect, Taiwan's annual GDP growth will decrease 0.18 per cent and exports will decrease 0.41 per cent; if Taiwan does not have any response to ASEAN +3, Taiwan's annual GDP growth will decrease 0.84 per cent and exports will decrease 1.89 per cent.⁴²⁸ An ECFA would also benefit Taiwan's plastics, petrochemicals, petroleum, machinery, textiles, coal and steel sectors which were identified by the Ministry of Economic Affairs as "early harvest lists" of sectors for which ECFA will end the high tariffs imposed by China, and the strong growth in

⁴²⁷ Derek Scissors, "Taiwan Economy needs more than Cooperation with China", *Heritage Foundation*, November 2009,

www.heritage.org/Research/Reports/2009/11/Taiwans%20Economy%20Needs%20More%20Than%20Cooperation%20with%20China.

⁴²⁸ Zu-jia Lin, "Signing ECFA, should be Broader and Faster", *Yuan-jian Magazine*, September 2009.

Chinese demand for these products will stimulate production in these areas.⁴²⁹ A report from the Council of Labour Affairs in mid-October 2009 showed a positive impact of 0.75 per cent GDP growth and a net gain of 125,000 jobs under a favourable ECFA scenario, and a dip of almost 0.2 per cent in GDP, accompanied by a net loss of 47,000 jobs, in the event of the ECFA not being concluded.⁴³⁰

Opponents of ECFA consider the pact will also bring Taiwan several negative impacts. First, ECFA is advantageous to the large industries mentioned above but will be harmful to small and medium-size enterprises (SMEs). Owing to a possible flood of cheaper Chinese goods on the island's market, the domestic manufacturers of products like towels, shoes, bedding and ceramics will lose competitiveness, on which the ministry did not elaborate. Some private sector analysis also shows that the ECFA will have minimal benefit for Taiwan's exports. This is because the major benefits of Taiwan's exports are from the IT industry which has already highly integrated into the global supply chain, and faces low commodity taxes of only 0.58 per cent when exporting its components to China for assembly and reshipment to world markets.⁴³¹ Moreover, the difficulties in Taiwan's manufacturing industry not only include tariff barriers but various other factors, for example, the competition from newly established factories in the mainland. By 2010, China had planned to establish at least 20 massive petroleum refineries in the mainland.⁴³² To illustrate: in an interview with

⁴²⁹ For example, in the petrochemicals industry, the Chinese market absorbs 66 per cent of Taiwanese exports. If an ECFA is signed before China signs an FTA with Japan and South Korea, Taiwan's petrochemical suppliers will more than double their share of the Chinese market, from the current 15 per cent to 38 per cent.

⁴³⁰ Merritt T. Cooke, "Taiwan Economy: Recovery with Chinese Characteristic", *Brookings Institute*, November 2009, http://www.brookings.edu/opinions/2009/11_taiwan_economy_cooke.aspx.

⁴³¹ *Taipei Times*, "Editorial: ECFA Contingency Plan Imperative", 2 August 2009, <https://www.taipetimes.com/News/editorials/archives/2009/08/02/2003450168>

⁴³² *People Daily News*, "Before the Final Decision of Petrol Price: The CPC (China Petrochemical

the general manager of Bao Der Marble Co., Ltd., one of the largest marble and granite companies in Asia, Mr. Lin pointed out other reasons why the ECFA is not generally welcomed by the Taiwanese small and medium-size enterprises.

Take our field and company and as an example, the ECFA will be a trouble, not an opportunity. [...] In the field of granite and marble manufacturing and processing (marble slabs, tiles, cut-to-size and customer-designed size granite products are important materials for housing building), the major Taiwan companies will go bankrupt if the government allows China to export cheaper granite and marble products to Taiwan. Although Taiwan companies are still leading in technology which is important for producing better quality products, the gradual dry resource and higher limit on mining in Taiwan has reduced competitiveness and forced companies to import stones from overseas. [...] When ECFA works, it seems like a good opportunity for Taiwan to export granite and marble products to growing housing market due to low tax barriers; however, the situation is temporary and superficial, ultimately Taiwan cannot reject China's exports. In fact, the current smuggling of stone from China to Taiwan products is already serious. Moreover, Taiwan companies general believe they still need to pay high "tariff duties" (including bribes) since corruption is very common in Chinese custom.⁴³³

The experience of Closer Economic Partnership Arrangement (CEPA) Hong

Corporation) took Great Leaps Forward", 2 July 2007,
<http://finance.people.com.cn/BIG5/1038/59942/59945/6203350.html>.

⁴³³ Interview with Mr. Ching-ming Lin, who is president of the Stone and Resource Industry R&D Centre and chairman of the Taiwan Marble Association, 12 March 2010.

Kong signed by Hong Kong and China in June 2003 supports the idea that CEPA will bring long-term negative impacts. Vincent Sung, the organizing secretary of the Hong Kong Confederation of Trade Unions, said during a symposium in Taiwan that the CEPA had only benefited multinational corporations and a minority of special interest groups, and had neither revitalized the local manufacturing industry nor generated an increase in wages. In Hong Kong, employment in manufacturing fell from 170,000 in 2003 to 140,000 in 2007, while exports fell by 1.1 per cent in 2006 and by 19.1 per cent in 2007. He urged Taiwan's government to consider this point before signing an ECFA with China.⁴³⁴ The final problem is still the political and security issue. The ECFA will increase the island's dependence on the mainland and therefore fall into China's geopolitical quagmire (economic measures to unify with Taiwan under Beijing's "One China" policy).⁴³⁵ For all this, Ma's administration still hopes that the initial establishment of ECFA will be a prelude to a Taiwan–China FTA, which would imply China's implicit acceptance of Taiwan signing similar trade pacts with other countries in the region, or even in the US and in Europe.⁴³⁶

7.1.4 Summary of Ma's Open-door policies and Cross- Strait negotiations after 2008

To Taiwan's democratic development, the Cross-Strait issues on the negotiation table during 2008–2009 are new stories between KMT's open door policy and DPP's protectionism. If we use the theoretical framework created in Chapter 4 to explain all changes and debates on the issue in the two years discussed in this section, Table 4.3 provides a clear picture of the different logics of these two groups, the ideas raised by

⁴³⁴ Ibid., *Taipei Times*, 27 December 2009.

⁴³⁵ Chen-yuan Tung, "Optimizing Taiwan's Development", *Taipei Times*, 5 May 2010, p. 8.

⁴³⁶ Ibid., *Taipei Times*, 2 August 2009.

both camps were in some aspect reasonable and persuasive to the public and offered support to the negotiation teams to reflect the island's real and plural voice. While the KMT strongly promoted the open door policy and persuaded people that China was a good co-operator who actually provided Taiwan with huge market opportunities (i.e. benefits from mainland tourists visiting, expansion of Taiwanese Banks, early harvest list of signing ECFA) needed for Taiwan to prevent marginalization of regional economic cooperation, especially ASEAN+3 after 2010, the DPP reminded people that China was an economic competitor (i.e. flood of RMB, state-owned capital, cheaper Chinese products, and intentionally limiting the fifth freedom of the air) and any risky or urgent economic agreement with China would be harmful to the island's major industries, SMES and also raise unemployment. In politics, since the KMT returned to power in 2008, the Ma's administration preferred to promote its policy by direct negotiations with China as the KMT enjoyed minimal legislative checks which allowed the president to authorize administration and technical measurements such that the topics on the negotiation tables were simple economic issues. This style of decision making was criticized as antidemocratic since every agreement with China was influential to the island's future development and yet decided in a very limited administrative inner circle under table. This kind of situation also influenced Ma's public support such that some people even considered that President Ma and the KMT administration had better communication with the CCP than the DPP had. In contrast, after the loss of central power in 2008, the DPP was forced to return "on the street" with its poor support, very limited control of legislative seats, and a handful of south county and city majors. To appeal to a more direct democracy, referendum for ECFA or large demonstration on the street are actually the traditional strategies for the DPP to maintain its basic support and momentum when they lack central power and majority in the Legislative Yuan. However, while the KMT focused on cross strait

issues to emphasize its ability to lead the island's growth (the traditional image of the KMT is that it is more capable to deal with economic and mainland affairs), whether the cross-strait issues were useful for the DPP to play a good role as the opposition, to supervise the KMT's negotiations, and even get public support to return to power, the outcome is still questionable and requires further investigation. There will be more detailed discussion Chapter 8, focusing on the DPP's role of opposition on cross strait negotiations and their future possible development.

7.2 The issues off the table

Obviously, the reopened cross strait dialogues and negotiations were very limited in terms of economic issues. Other important issues, such as the role of Taiwan in international organizations and how to maintain the peace in the Taiwan Strait, could not be officially discussed on the table owing to constant sovereignty disputes between both sides. As mentioned above, Ma's administration had set up three steps designed to resume the dialogue and talks. When the negotiations reopened quickly and smoothly, Taiwan's participation in international organizations and the changed situation regarding US arms sales had become important evidence to test the PRC's concessions and the possibility of further establishing mutual military trust, even a cross-strait peace accord. Nevertheless, after Ma went to office, Taiwan's participation in international organizations was very limited and the cross-strait peace accord seemed to be far beyond the expectations of either side.

7.2.1 Asia Pacific Economic Forum (APEC) and World Health Assembly (WHA)

The twenty-first APEC, held 22–23 November 2008 in Peru's capital city of Lima, provided Taiwan the first opportunity to examine the effects of Ma's "modus vivendi" diplomacy. Lien Chan, the former vice president and KMT presidential candidate in 2004 was selected by President Ma Ying-jeou as special envoy to represent Taiwan (participating as Chinese Taipei). Lien Chan met with PRC leader Hu Jintao for about 40 minutes at a hotel in Lima, Peru. Officials in Taiwan's summit delegation called it the highest-level meeting in an international setting since 1949.⁴³⁷ This came just weeks after PRC envoy Chen Yunlin visited Taipei, Taiwan. In another breakthrough, the official list of participating economies and leaders released by the organizer included a portrait of President Ma under the "Chinese Taipei" section. It was accompanied by a brief description stating that "President Ma Ying-jeou" was the leader of the member economy and that "the leader has nominated former Vice President of Chinese Taipei, Lien Chan, to replace him".⁴³⁸ As discussed in Chapter 4.1, APEC is an annual event and the representatives must be a national leader, president or prime minister. The semi-official international forum had become an important occasion for Asian Pacific countries to interact with the United States. According to the past experience, Beijing would no doubt oppose Taiwanese representatives from high levels of government, and also any initiatives proposed in the name of financial contribution to the development of the regional economy. Under Beijing's blockade, in the final year of the DPP's power from 2000–2008, Taiwan did

⁴³⁷ *The China Post*, "China, Taiwan hold High-Level Meeting", 22 November 2008, www.chinapost.com.tw/taiwan/china-taiwan-relations/2008/11/22/184283/China-Taiwan.htm.

⁴³⁸ *Taiwan Headlines*, "President Touts APEC Breakthrough as Success of 'Diplomatic Truce' ", 15 November 2008, www.taiwanheadlines.gov.tw/ct.asp?xItem=141031&CtNode=39.

not send government officials but authorized world-famous Taiwan businessmen as delegates, for example, TSMC (Taiwan Semiconductor Manufacturing Company) Chairman Morris Chang in 2006 and Acer Computer president Stan Shih in 2007.⁴³⁹ The positive interaction between Lien Chen and Hu Jin-tao can be considered a good response to Ma's foreign policy from Beijing, but might be seen as another kind of prejudice and privilege to the KMT. Lien is typically considered as a pro-unification politician in Taiwan and is famous for his "groundbreaking visits" to mainland China in 2005.⁴⁴⁰ However, even though Taiwan might have felt more space in the APEC, China had become a heavyweight player in the forum and influenced agenda setting. In addition to occupying the VIP seat beside the host in the banquet, Hu Jin-tao's strong promise on China's contribution to global economic stability and climate change was very impressive to the other countries. For example, Hu promised China's energy consumption in 2010 would be only 80 per cent of that in 2005. This objective was considered very challenging to China's high speed economic growth.⁴⁴¹ The situation demonstrates that the expansion of Taiwan's international space was still very limited and much dependent on China's attitude, even though Taiwan was trying to breakout from China's blockade.

The process of Taiwan's participation in the World Health Organization (WHO) during 2008–2009 shows that the PRC's concession in international organizations was

⁴³⁹ "Acer Group Founder Stan Shih to Be President Chen's Representative at APEC Economic Leaders Meeting", Office of President (ROC), 17 August 2007, www.taiwan.gov.tw/ct.asp?xItem=1314&ctNode=251&mp=4.

⁴⁴⁰ On 26 April 2005, Lien Chan travelled to mainland China to meet with the leaders of the Communist Party of China. His meeting with CPC leader Hu Jintao was the highest level exchange since Chiang Kai-shek and Mao Zedong met in Chongqing on 28 August 1945 to celebrate the victory in the Second Sino-Japanese War and discuss a possible truce in the impending Chinese Civil War.

⁴⁴¹ Yi-zheng Lu, "What is the Achievement of 2009 APEC?", *China Times*, 1 December 2009, A19

very limited and the major intention of China's blockade was obviously to constrain Taiwan's international activities and interpret the activities as China's domestic affairs. Like the outbreak of a lethal strain of bird flu and the SARS epidemic, the Chinese melamine-contaminated products scandal, a food safety incident in the mainland became another event which angered the Taiwanese people and stimulated pressure on Ma's administration to participate in a global diseases prevention network, especially cooperation and information sharing in the WHO.⁴⁴² This low political appeal was still suspicious and therefore was overthrown by Beijing under a reason of non-qualification since Taiwan was not a sovereign state. Chinese opposition is not very persuasive to the international community since Taiwan is famous for its successful national health care insurance system⁴⁴³ and China itself is actually notorious for big loopholes and a lack of transparency in the diseases reporting system. The exclusion of Taiwan from WTO mechanisms such as the International Health Regulations (IHR) and World Health Assembly (WHA) not only obviously violated the rights of Taiwan's people for better international health security, it also become another source of cross strait confrontation in the international organization. However, these potential conflicts were temporally eased since the SEF and ARATS had signed agreements on establishing food safety control mechanisms between the two sides in the second Chen–Chiang Talk and Chen Yun-lin, head of ARATS, had surprisingly

⁴⁴² Sheng-mou Hou, "Taiwan must be in Global Disease Prevention Network", *News of Taipei Representatives Office in the EU and Belgium*, www.taiwanembassy.org/ct.asp?xItem=57535&ctNode=5914&mp=102.

⁴⁴³ For example, Taiwan's public health insurance care system had a very good reputation in several international evaluation indexes. Taiwan got the top ranking in life expectancy and infant mortality rate in 2007 and WHO fairness of financial contribution in 2003. For more details, please reference the following articles: "Hong Kong Magazine: Taiwan Public Health Insurance Enjoy International Reputation," *Xinhua News*, 27 March 2009; http://big5.xinhuanet.com/gate/big5/news.xinhuanet.com/tw/2009-03/27/content_11083511.htm.

made an official apology to the Taiwanese people for this issue prior to visiting Taiwan in November.⁴⁴⁴ On 28 April 2009, Taiwan's Department of Health (DOH) Minister Yeh Ching-chuan received a letter from the WHO inviting him to attend as an observer in the WHA's annual meeting scheduled for 18–27 May in Geneva. The next day, President Ma Ying-jeou declared that the invitation was a major step forward in Taiwan's campaign for meaningful participation in international organizations. Taiwan's presence at the annual meeting of the decision-making arm of the World Health Organization (WHO) would mark the first time that Taiwan had been allowed to participate in a meeting or activity of a United Nations specialized agency since losing its UN membership to China in 1971. This would also be the first time that Taiwan would be allowed to take part in the WHA after 12 failed attempts at WHA participation since 1997.⁴⁴⁵ Yeh explained that obtaining observer status in the WHA would enable Taiwan to maintain direct contact with the WHO to exchange information on disease control and prevention, better protecting the health and safety of the people in Taiwan. The situation was really a good news for Taiwan, since Taiwan enjoys higher compliance with international principles, norms and rules, (Taiwan's complete and advanced health care system is undoubtedly a good example) Taiwan can obtain greater support from advanced countries; enhancing the ability of Taipei to work with other governments, and somewhat eroding Beijing's attempts to isolate or marginalize Taiwan internationally. Nevertheless, Taiwan's membership name "Chinese Taipei", a consensus accepted by both the KMT and the CCP

⁴⁴⁴ *Taiwan Public Television*, "The Incident of Tainted Milk Powder Scandal, Chen Yun-lin Apologized to Taiwanese People", 30 October 2008,

<http://tw.myblog.yahoo.com/jw!ga9p9iuTQE7N63sfEIEW3C5ywg--/article?mid=25960>.

⁴⁴⁵ *The China Post*, "Taiwan Invited to Attend World Health Assembly", 29 April 2009,

<http://www.chinapost.com.tw/taiwan/national/national-news/2009/04/29/206179/Taiwan-invited.htm>

governments in joining international organizations not only reflects Taiwan's public unwillingness and lack of choice, but also explains China's concession was still very limited and did not change too much even though the Ma's administration think its foreign policy to be more pragmatic and flexible than previous.

7.2.2 Arms Sales

After the direct links, the shortened travel time due to the opening up of air and sea routes was very beneficial to cross strait commercial interaction, but in terms of island defence in the event of a sudden outbreak of war Taiwan would have a shorter time to respond to China's attack – especially missile and air force and aid from the American 7th Fleet; the 7th Fleet is the US Navy Force in the Pacific Ocean. Even though President Ma proclaimed he was very willing to sign a cross-strait peace accord or any mutual military trust agreement for the long term cross strait peace, expectations were low since both sides still kept a certain military force as leverage for confrontations and negotiations. Taiwan frequently appealed to China to withdraw at least 1,000 PLA missiles targeting Taiwan,⁴⁴⁶ however, the issue was obviously political, it did not make sense from a technical perspective that the PLA was able to redeploy the missiles very quickly, even overnight. For China, Beijing had long been sick of US arm sales to Taiwan. For example, when the United States sold F-16s to Taiwan in 1992 under President George H.W. Bush China threatened to withdraw from international arms control talks and retaliated, many China experts contend, by selling medium-range missiles to Pakistan. A \$6.5 billion arms sales package, including 114 Patriot missiles worth \$2.82 billion, 60 Black Hawk helicopters worth

⁴⁴⁶ *United Daily News*, "Never ask Americans to Fight for Taiwan? Ma shows High Confidence on Self-Defense", 3 May 2010, <http://udn.com/NEWS/NATIONAL/NAT1/5574008.shtml>.

\$3.1 billion, communications equipment for Taiwan's F-16 fleet, and Harpoon missiles and mine-hunting ships, approved by the Obama administration in 2010, also aroused a swift and negative Chinese reaction. China's vice foreign minister, He Yafei, issued a diplomatic message to the State Department expressing his "indignation" over the pending sale, revealed Wang Baoding, the spokesman at the Chinese Embassy in Washington.⁴⁴⁷ However, in order to maintain a certain degree of self-defence capability, Taiwan also suffered and needed to pay higher prices to purchase US expansive weapons. Most weapons were costly and some did not make a significant contribution to Taiwan's actual defence requirements.

After Ma went to office, the island's defence strategy clearly changed, reflecting the KMT's differing thoughts on how to protect the island. Before 2008, KMT legislature blocked Taiwan's military procurements during the Chen Shui-bian years, and thus ensured Taiwan's long-term defencelessness against China.⁴⁴⁸ However, the KMT politicians believed their objection to be reasonable as Taiwan was not able to afford an arms race with China, and the "Active Defence" strategy which planned to develop those counter-measure weapons such as HF-2E were unpractical or even dangerous.⁴⁴⁹ Then-Legislator Su Chi (now Ma Ying-jeou's Secretary General of the National Security Council) was the major leader who rejected the "Active Defence" strategy and stated openly that the KMT would never consider developing any

⁴⁴⁷ *The New York Times*, Helene Cooper, "US Approval of Taiwan Arm Sales Angers China", 29 January 2010, <http://www.nytimes.com/2010/01/30/world/asia/30arms.html?ref=world>

⁴⁴⁸ *Taipei Times*, "Analysis: US Arm Package could be an Expensive Illusion," 16 December 2009, <http://www.taipeitimes.com/News/taiwan/archives/2009/12/16/2003461063>

⁴⁴⁹ Rather, they were opposed to having them under Chen Shui-bian's command on grounds because Chen might abuse them; David Lague, "Taiwan Develops Missiles Designed to Reach Targets in China", *The New York Times*, 28 September 2007, http://www.nytimes.com/2007/09/28/world/asia/28iht-taiwan.1.7670540.html?_r=1

weapon that could strike mainland China.⁴⁵⁰ Su believed that Chen's "Decisive Campaign outside the Territory" was irrelevant to defending Taiwan and a dangerous idea that might provoke military confrontation in the Taiwan Strait. As a result, then-Legislator Su Chi boycotted the MND budget for HF-2E production. As an alternative, Su proposed the idea of the "Hard ROC" during Ma's 2008 presidential campaign, which became the mantra of Ma's military strategy. Under the "Hard ROC," Su argued that the imperatives of defending Taiwan were

The capabilities to sustain China's surprise attack and maintain air superiority in order to deprive China from landing and occupying Taiwan. If China cannot ensure its swift victory and create a fait accompli before the U.S. intervention, then China's incentive of invasion is naturally decreased.⁴⁵¹

Under the concept of a "Hard ROC," rather than big ships and fast planes, the Taiwan military preferred runway repair kits (for maintaining local air superiority), sea mines (to deny the enemy's command of the sea), and troop transport helicopters (for rapid force redeployment within Taiwan).⁴⁵² However, the new arms sales, a \$6.5 billion deal, approved by the Obama administration in 2010 mentioned above could be an active but not a very encouraging response to Taiwan's requirements because the items were those originally approved by former US president George W. Bush in 2001. It is believed that US may release PAC-3 interceptor missiles, UH-60 Black Hawk helicopters, as well as an operations deal for the "Po Sheng," or Broad Victory, command and control programme and design work on diesel-electric

⁴⁵⁰ York W. Chen (2009), "The Evolution of Taiwan Military Strategy: Convergence and Dissonance", *China Brief*, Vol. 9, Issue 23, 19 November 2009.

⁴⁵¹ *United Daily News*, "The Imperatives of Defending Taiwan were the Capabilities to Sustain China's Surprise Attack and Maintain Air Superiority", 24 January 2006, A3.

⁴⁵² *The Liberty Times*, "Su Argued that Taiwan's Arms Procurement should be Redirected", 20 October 2007. A5.

submarines.⁴⁵³ Except for UH-60 Black Hawk helicopters – the only items which can satisfy ROC's military requirements – the deal is nothing new in that the 66 F-16C/D fighter aircraft that Taiwan has sought for years was still missing from the list, there are reservations regarding the capability of the Patriot PAC-3 interceptor missiles to defend against PLA missiles barrage, and also problematic is the fact that the design work on the submarines would be costly and may not even result in actual submarines.⁴⁵⁴

The controversy regarding whether Taiwan should reopen markets to US bone-in beef and certain other beef products not only handed President Ma one of his biggest crises since he took office in 2008, but also became an unanticipated factor to the US arms sales. On 22 October 2009, the Taiwan Legislative Yuan changed a food safety law (the Act Governing Food Sanitation) to ban some US beef imports and urged the executive to renegotiate with the US – a response to pacify mad cow disease fears from the island's public – this angered Washington, which said the movement had undermined Taiwan's credibility as a trading partner.⁴⁵⁵ The action also promoted speculation that the American government would take retaliation measures including suspending weapons sales to the island, Wu stressed. Coincidentally, the dispute resulted from Su Chi's protocol signed with the US. Su explained that miscommunication had led to public panic and sought to avoid future misunderstandings, but he also warned the public that if Taiwan violated a recently-inked protocol on the import of US beef this would undermine its

⁴⁵³ James Martin Centre for Nonproliferation Studies (CNS), "Arms Sales to Taiwan - Statements and Development", 21 February 2003, <http://www.nti.org/db/china/twnchr.htm>.

⁴⁵⁴ Ibid., *Taipei Times*, 16 December 2009, p.3.

⁴⁵⁵ *Reuters*, "Taiwan seeks new talks with U.S. after banning beef", 6 January 2010, http://mobile.reuters.com/mobile/m/FullArticle/CPOL/npoliticsNews_uUSTRE6051F720100106?src=RSS-POL.

international credibility and US support. The US and its lawmakers were likely to hold back their support for the island because 70 per cent of the US congressional leaders were from agricultural states.⁴⁵⁶ The US Congress had long been a major force backing Taiwan. Su also reminded that trade friction would also postpone several items of long-stalled talks between the two sides on the Trade and Investment Framework Agreement (TIFF), double taxation, intellectual property rights and energy and environmental cooperation.⁴⁵⁷ Under these challenges, Taiwan planned to send a delegation to the United States, likely to be comprised of legislators and officials who would mainly inspect slaughterhouses, meat processing factories and packing procedures to better control the safety of the US beef to be exported to Taiwan. The delegates also sought to explain to the US that Taiwan's legislature would not *always* accept *all* of the decisions made by the executive branch without expressing any opinions.⁴⁵⁸ Nevertheless, the action was considered not to be useful as people in Taiwan gradually discovered, leading to lost confidence on the less democratic values in the process of US foreign policy making.

7.3 The impact of global economic recession

The global economic recession caused by the US financial crisis at the end of 2008 caused an unexpected, rapid and direct impact on the island's economy. Since President Ma's inauguration, an unprecedented high "misery" economic index – not seen in the previous 28 years – had not only been a big surprise to experts, but was

⁴⁵⁶ *The China Post*, "Reneging on beef might erode U.S. support: Su Chi", 25 December 2009, <http://www.chinapost.com.tw/taiwan/foreign-affairs/2009/12/25/237932/Reneging-on.htm>

⁴⁵⁷ *The China Post*, "Taiwan has Hard Role in TPP Process: Scholars ", 24 December 2009, <http://www.chinapost.com.tw/taiwan/t-business/2009/12/24/237790/Taiwan-has.htm>

⁴⁵⁸ *Taipei Times*, "Ma Sending Delegation to Washington", 31 December 2009, p. 1.

also a strike to Ma's prestige. According to official statistics from the ROC Ministry of Economic affairs, Taiwan's GDP growth was -1.9 per cent in 2009, down from 6.0 per cent in 2007;⁴⁵⁹ Meanwhile, in the first quarter of 2009, (January–March) the island's exports decreased by 20.3 per cent, and even reached -34.3 per cent in April – the most worst condition in history.⁴⁶⁰ The unemployment rate was 6.13 per cent in August, which was the highest ever recorded and higher than any other country in Asia.⁴⁶¹ About 2,000 companies had gone bankrupt since Ma's inauguration.⁴⁶² The Taipei Stock Exchange had slumped from 9,200 on 20 May 2008 to 4,500 points on 8 October 2008, losing about 4,000 points, down almost 49 per cent of market values.⁴⁶³ In early September, in an interview with a Mexican newspaper, President Ma admitted that he would not be able to achieve his "633 Plan" promises before the end of his first term.⁴⁶⁴

How to deal with the rising cost of international oil and raw materials in May became the first challenge to the Ma's administration (not part of the global economic recession). Before the presidential election, in order to get the popular support, the

⁴⁵⁹ Department of Statistics, Ministry of Economic Affairs (ROC), "A-1: Global Major Countries GDP", in Economy Statistic Index, ROC, <http://2k3dmz2.moea.gov.tw/gnweb/Indicator/wFrmIndicator.aspx#B>, accessed 1 May 2009.

⁴⁶⁰ Department of Statistics, Ministry of Economic Affairs (ROC), "C-1: ROC Export "in Economy Statistic Index, <http://2k3dmz2.moea.gov.tw/gnweb/Indicator/wFrmIndicator.aspx#B> ,accessed 1 May 2009.

⁴⁶¹ *SinaNews*, "Taiwan's Unemployment Rate: 6.13%, the highest in Asia", 22 September 2009, <http://financenews.sina.com/bcc/000-000-107-104/403/2009-09-22/0356474193.shtml>.

⁴⁶² *The Liberty Times*, "People's Misery Index Rise", 30 August 2008, www.libertytimes.com.tw/2008/new/aug/30/today-taipei4-2.htm.

⁴⁶³ *Taiwan Headlines*, "Taiwan Stocks Close Lower Despite New Measures to Shore Up Market", 13 October 2008, <http://www.taiwanheadlines.gov.tw/ct.asp?xItem=137135&CtNode=39> ; *Economic Daily News*, 11 January 2009, <http://udn.com/NEWS/STOCK/STO2/4681566.shtml>.

⁴⁶⁴ *United Daily News*, "President Ma: "633" Cannot be Achieved until 2016", 4 September 2008, <http://udn.com/NEWS/FINANCE/FIN2/4502786.shtml>.

government intentionally controlled oil and electricity prices. On 28 May 2008, the Executive Yuan proclaimed the price would be raised and modified later according to market mechanisms.⁴⁶⁵ Although the measurements were helpful for those governments capable of paying the higher oil prices, the policy obviously hindered President Ma's economic plans – his government could not expand public expenditure to infrastructure building which was the core idea of "I-Taiwan 12 Projects". Meanwhile, the goal of the "633" economic plan would be also delayed because the government was forced to change its priority from economic growth to suppressing inflation. In general, the government always used financial (reduction of public demand; regulating the salary standard and market price) and monetary policy instruments (devaluation of the currency) to resolve problems of inflation. The price of these conservative economic policies was the resulting economic recession and higher unemployment rate.

Maintaining the island's international competition in the export sector and the work of the stock market become other difficult challenges for Ma's administration when large numbers of purchasing orders were cancelled and huge amounts of foreign capital escaped the Asian market during the serious global economic recession at the end of 2008. The island's economic weakness was revealed: too highly dependent on the US market along with slow innovation in industry structure. The island still relies heavily on the benefits from sales of IT products and electric machinery which are deeply associated with US economic cycle. When the US economy goes into a recession like the one caused by the subprime mortgage crisis at the end of 2008, the reduction of IT exports quickly influence investor confidence and force business owners to reduce staff and lay off employees. Meanwhile, when investors lose

⁴⁶⁵ *The Commercial Times*, "Foreign Investment Views on Raised Oil Price: A Burst of Inflation", 28 May 2008, p. 12.

confidence in the stock market, another impact is that the domestic housing market and the car market fall down at the same time. According to the Hsinchu Science Park Administration investigation, in January 2009 – the most serious period of economic depression – about 96,900 employees including high tech engineers were forced to have “unpaid leave”.⁴⁶⁶ As Shi Zhen-rong, the founding father of Acer (one of the most worlds famous and leading IT companies) said, the development of high-tech manufacturing industry in Taiwan had gone into the stage of capital centralization which meant the industry would gradually reduce jobs offers. If Taiwan is not able to expand the percentage of service industry inside the island, Taiwan will keep on suffering the impact from the gradual decline of the Western market.⁴⁶⁷

Nevertheless, the innovation of industry is after all a long term work. For the gradually matured democratic society of Taiwan, during economic crises the government should act to satisfy public expectation and prove its capability to lead the country out of such crises. Similar to the previous measurement to cope with the inflation problems in the early half of 2008, the Ma’s administration was now tasked with using various financial and monetary instruments to solve the problems of the depression in late 2008. From September 2008 to March 2009, the Taiwan Central Bank successively reduced the interest rate seven times in an effort to stimulate the economy.⁴⁶⁸ On October 7 2008, the Executive Yuan proclaimed that the government would provide 100 per cent financial insurance for the small and medium size banks since those banks had lost NT\$188.5 billion in savings when the global financial crisis stuck the island in early September 2009. In fact, the crisis caused many to bank their

⁴⁶⁶ *Economic Daily News*, “The Amount of Unpaid Leave: only 225”, 16 October 2009, <http://udn.com/NEWS/FINANCE/FIN3/5197004.shtml>.

⁴⁶⁷ *China Times*, “No More Rely on Single Engine of Export!”, 6 February 2009, A.19.

⁴⁶⁸ *BCC News*, “Swallows Come? Central Bank Stop Decreasing Interest Rates”, March 26,2009, <http://tw.myblog.yahoo.com/jw!ge5yHEqYAwJclp5zYbw-/article?mid=14877>

money with state-owned banks, for example, the Taiwan Bank increased its funds by NT\$232.1 billion during this time.⁴⁶⁹ In Asian countries, like the tradition of a high proportion of people's saving, the situation reflected people's low confidence in private banks and their concerns regarding potential loss of money during the period of economic recession. However, tradition and psychology made a poor economy worse and forced the government to act to save private banks and stimulate consumers. On 5 December, the Financial Supervisory Commission (FSC) proclaimed another risky measurement: the NT\$4.2 trillion of public savings in the mail system, mostly consisting of pension funds for retired people, the public saving would be also transferred to the commercial bank.⁴⁷⁰ In addition to the financial aid to the banks, the government also spent huge amounts on a series of tax incentives and relief programmes in order to stimulate the market; however, the price of this was further deterioration of government finances. Up until the end of 2008, Ma's administration had introduced NT\$150 billion tax cut programmes, in four major fields: 50 per cent reduction of stock exchange tax (NT\$32 billion), 5 per cent reduction of business tax (NT\$76.5 billion), lower inheritance tax (NT\$26 million) and income tax (NT\$15.3 million).⁴⁷¹ The government also removed NT\$30,000 in commodity taxes for car sales and provided five-year tax-free business incentives for investment in traditional industry.⁴⁷² Meanwhile, saving industries – especially those companies who owned

⁴⁶⁹ "Premier Liu: 100 Percent Governmental Insurance for all Savings in the Bank, the best Patronage in the World", *CD News*, 8 October 2008.

⁴⁷⁰ *China Times*, "Chen Chong: NT \$4.2 Trillion of Public Saving in the Mail System Will Be Transferred to Commercial Banks", 5 December 2008, <http://n.yam.com/chinatimes/fn/200812/20081205247070.html>.

⁴⁷¹ *China Times*, "The Opium War of Ma's Administration", 15 November 2008, A17.

⁴⁷² Industrial Development Bureau, Ministry of Economic Affairs (ROC), "Five Years Business Tax Free – After Getting MOEA Certificate, the Applicants still need to be Permitted by Ministry of Finance", <http://type.0800000601.com/5tax/new10.html>, accessed 1 April 2009.

core technology and enjoyed high global market shares, but had suffered the deepest impact in the wave of the global economic recession became another hard lesson for Ma's administration. On 10 March 2009, the Ministry of Economic Affairs (MOEA) proclaimed NT\$3 billion financial aids for the ProMos Technologies Company, one of the world's leading DRAM memory solution providers and a major manufacture in the Taiwan DRAM industry.⁴⁷³ During the wave of serious global economic recession in 2008, Taiwan's DRAM companies lost most of their purchasing orders to their major competitors, the South Korea Samsung Group, and the global market share dropped from 40 per cent to 15 per cent.⁴⁷⁴ The MOEA also considered utilizing a bigger DRAM company (Taiwan Memory Company, TMC) who enjoyed full financial support from the government in order to change this poor situation.⁴⁷⁵ As usual, the price was even greater losses in government finances, estimated at around NT\$30 billion initial investment and NT\$100 billion of National Development Fund.⁴⁷⁶ One other huge public expense for stimulating the economy was the policy of the "Consumer Voucher" before the Chinese New Year 2009. The government distributed vouchers worth NT\$3,600 to every Taiwanese citizen. The vouchers could be exchanged for goods and services in shops throughout the country but would expire at the end of 2009. The budget for this policy is estimated at NT\$82.9 billion and was expected to raise the island's GDP by 0.66 per cent or even 1 per cent.⁴⁷⁷

⁴⁷³ *China Times*, "Xuan Ming-zhi: Rebuild D-RAM, The Government Stimulus Package only Cost 3 Billion NT\$", 11 March 2009, <http://n.yam.com/chinatimes/fn/200903/20090311765220.html>.

⁴⁷⁴ Jenn-hwa Tu, "Unadoptable Decision Making of Stimulus Package for D-RAM", *Taiwan Times*, 18 February 2009, http://tw.myblog.yahoo.com/jw!3WucA0uGBR2iZ_41ENM-/article?mid=1562.

⁴⁷⁵ *United Daily News*, "The Mission of Integrating D-Ram Industry: Xuan Ming-zhi Jumped into a Fiery Pit", 6 March 2009, <http://udn.com/NEWS/FINANCE/FINS1/4773051.shtml>.

⁴⁷⁶ *Ibid.*, Jenn-hwa Tu, 18 February 2009.

⁴⁷⁷ *United Daily News*, "The Effects of Consumer Vouchers: The Government Estimates a Growth of 0.66% to 1% in GDP", 20 January 2009,

The policy was later to be proved successful ; in order to get more vouchers, local business tried to design different “product portfolios” and marketing strategies to attract consumer’s attention. This behaviour at the same time stimulated economic activity and public consumption as people often spent more money along with their vouchers, not just the NT\$3,600. The policy was also more effective than the “Tax Refund” policy suggested by the opposition party where in those countries with a tradition of a high saving rate, people would keep the refund and save it in the bank. A high rate of saving is obviously not helpful to improve economic depression, people will hold onto their money and do not consume, invest etc, economic activity is therefore passive and the depression will become serious.⁴⁷⁸ According to government statistics, the tax revenue in the first five months of 2009 (January–May 2009) was estimated at NT\$520 billion, which was 120 billion less than the earnings in the same period of the previous year, a reduction of 19.2 per cent from 2008. It was also the biggest tax reduction in the previous 36 years.

7.4 Ma’s challenges and its Significance for Taiwan Democratic Development

Ma’s leadership and the style of his administration were viewed as problematic and weak when coping with the challenges mentioned in the above sections. This perspective was demonstrated by the series of major domestic elections after the KMT went to office in 2008. On 5 December 2009, local-level elections for county magistrates and city mayors were held. The elections were widely seen as a touchstone of public opinion on Ma’s performance in the first half of his term as well

<http://tw.myblog.yahoo.com/jw!iMioti2ZFQE3ifW7eoKtr3Io.g--/article?mid=358>.

⁴⁷⁸ *China Times*, “The DPP Advocates Tax Refund: Premier Liu Refused”, 25 June 2008, <http://n.yam.com/chinatimes/politics/200806/20080625174190.html>

as on the island's new relations with China. Although the KMT maintained its hold on a majority of the 17 counties and cities in winning magistrate and mayoral positions, the DPP gained one county, more importantly, it won 45.32 per cent of the overall votes cast, up significantly from the 41.95 per cent in the local-level elections held four years previously (2005), and the votes cast for the DPP were only 2.55 per cent lower than those cast for the KMT (the KMT got 47.87 per cent). The ruling KMT party, in other words, lost in percentage terms – in 2005 the KMT had a much higher percentage, 50.96 per cent of the votes.⁴⁷⁹ In a word, the KMT and President Ma Ying-jeou were widely considered the losers.

As discussed in the above sections, the rapprochement of cross-strait relations, global economic downturn, and controversies regarding beef issues were not only new challenges to the island, but were also important lessons to Ma's administration in its first two years' tenure. Although the island's economy was obviously bouncing back at the end of 2009 and Cross-Strait relations appeared at their most stable following almost 12 years of confrontation following the 1996 missile crisis in the Lee Teng-hui presidency; Ma's personal approval rating had plummeted since the election and popular dissatisfaction was at a very high level. The people showed very low confidence in his administration and the ruling KMT party. According to a recent investigation by Global Views Survey Research Centre, one of the authoritative survey organizations in Taiwan, only 28.2 per cent of Taiwanese were satisfied with Ma's performance and 59.6 per cent were not, 44.8 per cent said they trusted Ma, while 41.7 per cent say they did not. In fact, Ma's approval ratings dropped to their lowest level (22.9 per cent) after Typhoon Morakot devastated the island from 6–10

⁴⁷⁹ Cindy Shui, "Taiwan Elections, A Warning to Ma", *Asia Times*, 8 December 2009, <http://www.atimes.com/atimes/China/KL08Ad01.html>

August 2009.⁴⁸⁰ Ma's administration was criticized for its sluggish response to the worst typhoon in half a century, where more than 600 people were killed.⁴⁸¹ Several government mistakes – including the Central Weather Bureau wrongly predicting low rainfalls, troops not dispatched in time (until the third day of the typhoon), too few soldiers to rescue typhoon victims, not evacuating people living in dangerous areas before the typhoon hit, and initially rejecting international aid – also disappointed the public whose expectation had been for more efficient and stronger leadership from the top to coordinate the rescue. The reactions from top officials at the height of the rescue effort also angered the public and reminded people of the KMT's old negative images: senior public officials were arrogant and easily ignored public needs. For example, Premier Liu Chao-shiuan had the nerve to get his hair cut and dyed on 11 August 2009; the Executive Yuan's secretary general Hsueh Hsiang-chuan, who was responsible for coordination between ministries, had a Taiwanese Father's Day dinner with his father-in-law on 8 August 2009 when the typhoon brought flooding to the south.⁴⁸²

Before the presidency, compared with the DPP's corruption and rough manipulation on democratic institutions, Ma's image of a polite, honest, clean and dispassionate technocrat who always showed high respect to the regulations helped him to win the high support from public and freed him from the political struggles inside the KMT. However, after he went to presidency in 2008–2009, the Ma

⁴⁸⁰ *Global Views Survey Research Centre (GVSRC)*, "Survey on Cross-strait Economic Cooperation Framework Agreement (ECFA) and Exchanges Taiwanese's views on Ultimate Unification with China and Independence and President Ma Ying-jeou Approval Rating", *Tien Xia Magazine*, 22 December 2009.

⁴⁸¹ Andrew Jacobs, "Taiwan's Leader Faces Anger Over Storm Response", *New York Times*, 24 August 2009, http://www.nytimes.com/2009/08/24/world/asia/24taiwan.html?_r=1&ref=world

⁴⁸² *Asia Times*, "Typhoon Turns into a Political Storm", 21 August 2009, <http://www.atimes.com/atimes/China/KH21Ad01.html>

administration's "closed-door" style of negotiations with China and the inappropriate response to the public when incidents happened revealed his weaknesses and problems concerning his personality and leadership. Even the core supporters of the Blue camp started to consider him as aloof, incapable, indecisive and bureaucratic. Some members of Ma's inner circle attributed Ma's problems to his family background: Ma had too much of an easy life, didn't really feel other people's pain, and did not have enough training in dealing with adversity.⁴⁸³ Moreover, it is interesting that lots of KMT politicians considered the major challenges to Ma were mainly from the KMT itself. For example, as senior KMT legislators Chen Shui-sheng and Dr. Ting Shou-chung said, how to organize a strong leadership and work well with the partners inside the KMT were key factors to decide whether the KMT would be still in power after the next presidential election. However, so far, along with the failure in the 2009 county magistrates and city mayoral elections, the KMT have surprisingly failed in the subsequent two legislative by-elections in January and March 2010,⁴⁸⁴ revealing that the ruling KMT party is still losing its basic support, which shows that Ma's leadership and the style of his administration were both very problematic after he went to the office. As two famous KMT politicians (Chen Shui-shen and Ting Shou-chung) described when interviewed by the researcher, the major problem of Ma's leadership and his team is a blunt and inefficient style which cannot properly respond to, or satisfy, popular demand in time. It is even suggested that a parliamentary executive team with a group of capable politicians would be better for Taiwan to form an efficient government, rather than a

⁴⁸³ Huo-wang Lin, "The Problem is not from KMT Heavy Weights, it is Ma Himself!", *United Daily News*, 29 December 2009, A15.

⁴⁸⁴ DPP recaptured six of seven seats; the KMT only kept Hualian; the DPP won all three seats from Taoyuan, Taichung, and Taitung ; two of three from Taoyuan, Hsinchu and Chiayi in March.

presidential cabinet in which the so called professionals are good at academic theories but very weak in terms of producing practical public policy, catching the public's attention, and gaining popular support and trust.

Chen Shui-sheng:

Obviously, Ma's challenge is majorly from domestic affairs, not the external international environment. No matter the impact of the global economic recession or any changes in the cross strait relationship, the general people's feeling about Ma's administration performance is always the key elements which decide whether the KMT could stay in power after the presidential election in 2012. [...] For President Ma and the members of his team, how to modify a suitable role between professional technocrats and genial politicians; how to develop a balance between professionalism and populism will be the major lesson for them in the remaining two years during this presidency. [...] However, it is obvious that the general public in Taiwan do not show high confidence in the style of Ma's administration, despite they consider themselves better than the previous authoritarian bureaucrats or opportunistic brokers during the DPP ruling period.⁴⁸⁵

Ting Shou-chung:

The incapable and unsuitable performance of new cabinet members, including President Ma himself [Ting considers Ma should act as prime minister as in the British parliamentary system] always angers the public and legislators. The

⁴⁸⁵ Interview with Shui-sheng Chen, who is chairman of KMT Taoyuan Branch, the former director of Cultural Affairs Bureau, Taoyuan County Government; KMT legislator (2001–2004), 27 April 2010.

problems result from Ma's personal preference of personnel recruitment (sometimes, maybe prejudice) that he always prefers scholars for important government positions. [...] Unlike legislators, these scholars do not have enough experience of local elections, away from real public voice, and most important of all, it always takes a long time for them to get used to the work of legislative, "the real politics" which is completely different with "theories baking" inside campus. The price is not only low public approval for central government, it also influences the whole party image which creates unnecessary difficulties for the other KMT elites, especially senior legislators and local mayors. [...] For the long-term Taiwan democratic development, it is better to change the form of central government from a presidential to a parliamentary system. The spirit of collective responsibility and the way of complementary principles, the typical characteristics of parliamentary system are better for creating an efficient government and developing a capable national leader, which is lacking in the current Taiwan democracy.⁴⁸⁶

The other analyses regarding Ma's leadership and weak performance of his administration point out that Ma seems to make similar mistakes to those Chen Shui-bian made during his first tenure. In order to be a "President of all people", Ma tended to implement reforms to win more support from the general public, but when he faced challenges from the pan-Blue core supporters, he reversed his decision and therefore provided people with an image of inconsistent, indecisive and inefficient policy making. For example, the KMT government tried to cancel the policy of free tax incentives for the military, teachers and civil servants (these people are generally

⁴⁸⁶ Interview with Dr. Shou-chung Ting, who is current senior KMT legislator and has been working in the Legislative Yuan for 18 years since 1989, 31 March 2010.

considered as the KMT core supporters) after 2011, however, before the follow-up legislators' election in January of 2010, the Executive Yuan suddenly proclaimed the policy was only in the process of discussion, not definitely to be executed in the future.⁴⁸⁷ Meanwhile, as the KMT party chairman, Ma is even considered hostile and as having prejudice to the KMT local factions. No matter if Ma's perspectives of "clean politics" and "fair play" are right or wrong, the split between Ma's inner circle and local factions caused problems in the KMT's cooperation.

The problems of KMT are not only troublesome to Ma's leadership; they are also a potential obstacle to the institutionalization of Cross-Strait relations. In addition to the power struggle inside the KMT, the party has long been notorious for its style of "political business", in Gordon Cheung's interpretation, a typical "Plutocracy" which refers to an inappropriate patron–client relationship between government and business, where the elite of the ruling class whose power derives from the wealth and collective force in driving at public policy and political initiatives which favours private economic interests (i.e. the KMT enjoys a huge amount of party assets and enterprise).⁴⁸⁸ The KMT is criticised for working with the CCP in the same way that the under-table "intermingling of KMT incumbent power with the interest of top Chinese leaders" had taken regular Cross-Strait talks and interaction out of legislative control and lost popular confidence in the transparency of the negotiation process –both of which are important values and principles in any democratic system.

⁴⁸⁷ *FTV News*, "Premier Wu Changed the Saying: Military, Civil Servants and Teachers still Enjoy Free Tax," 23 February 2010,

<http://times.hinet.net/times/article.do?newsid=2669624&isMediaArticle=true&cate=polity>

⁴⁸⁸ Gordon C.K. Cheung (2010), "New Approaches to Cross-Strait Integration and its Impacts on Taiwan's Domestic Economy: An Emerging "Chaiwan"?", *Journal of Current Chinese Affairs* 1/2010:1-2, pp. 20–21.

Conclusion

Two empirical findings are found and concluded in this chapter; these findings are related to the three major hypotheses of this research, but also reveal a new tendency in Taiwan's democratic development.

First, the weakness of Ma's leadership and his KMT administration is more influential to the island's political economic development than the effects of deeper cross strait economic interaction. The condition is also coherent with the theoretical argument that in a country with lower international economic integration and openness, the efficiency of new policy and political accountability of a government will be more directly examined by the general public and reflected in the result of domestic election. The logic of Ma's administration conforms with the KMT's traditional concept: economic prosperity is the most important element to consolidate its power and legitimate any promotion of political reforms. In addition, Ma is the "third mainlander president" who enjoys an unprecedented level of electoral support and public trust among most "native Taiwanese". Along with the decline of Taiwanese consciousness on the island, the situation also facilitates both him and his KMT to have more rational and pragmatic policy making, to seek greater political reforms and economic cooperation with mainland China. However, as discussed in this chapter, it is unfortunate that Ma did not make good use of this opportunity to improve the difficulties of a nascent democratic institution and the problems of poverty inequality, which was actually threatening to the stability of the democratic system. Moreover, the KMT administration was also bothered by the unpredicted impact of the global economic financial crisis at the end of 2008, and their expectation that the reconciliation of Cross-Strait and economic cooperation would bring the island benefits was also over-optimistic both to themselves and the general public – the

effects of closer Cross-Strait economic interaction were very limited and not able to be seen in the short run. In a word, the closer cross strait interaction after 2008 did not produce a direct, manifest and complete influence on the island's social economic development. The effects of the series of KMT open door policies to China were indirect and marginal; most people on the island did not have strong feelings about these major changes in their daily lives except for those Taiwanese Businessman (Taishang) who had frequently moved between the mainland and Taiwan.

The other findings concern the legitimacy of the series of Cross Strait Talks from 2008–2010. The process of political dialogues and negotiations with China was thought to be anti-democratic (under the table and non-transparent) in that Ma did not reach a good consensus inside the island before he sent the delegates to the negotiation tables. It is obvious that the KMT government tended to ignore the legislative supervision and neglected the need for scrutiny for the chance of cross strait agreement. The strategy of Ma's administration was in defining the agreement of cross strait talks in the "executive and domestic" levels, rather than "beyond the border"; thus decision making could easily be done via the intra party mechanism. The method of negotiation obviously violated the basic democratic norms and principles in terms of transparency and efficient consensus building. Meanwhile, the work of the Cross-Strait negotiations might not be so smooth and efficient in the future if there is another minority president and divided government – as was the case during the Chen Shui-bian tenure, 2000–2008. If a divided government happens again, similar to the situation in the DPP's tenure (2000–2008), it can be seen that an inefficient and inconsistent mainland policy will influence the normal and regular work of Cross-Strait political dialogue and economic cooperation – undoubtedly the most important external factor to the stability of the island's further democratic development.

Chapter 8 The development of the DPP after it lost power in 2008

Introduction

In this chapter, the researcher will focus on the development of the Democratic Progressive Party (DPP) after it lost power in 2008. As the other major political party in Taiwan, the DPP's further transition and whether – since the two party alternation system had been confirmed after the KMT returned to office in 2008 – it has an opportunity to return to power are two significant issues to the island's democratic development. Meanwhile, as discussed in the previous chapter, a series of cross strait interactions had begun under the guidance of the KMT's open door policy in late 2008. As the major opposition party with completely different perspectives on the nature of cross-strait relations, what kind of strategy the party will adopt and what kind of role the DPP should play to win public support are not only important considerations for the party itself, but also a characteristic of the island's democratic development after the coming of this new era. In the first section of this chapter, the discussion will be focused on the reasons behind the DPP's failure after eight years in office. In addition to the general view that the DPP's fatal electoral failure in 2008 was the resulted of the former President Chen Shui-bain's corruption scandal, the party's decline was also attributed to the long-existing problems of factionalism, a loss of traditional social support, and unnecessary arousal of social confrontation in the name of consolidating Taiwan's identity. In the second section, the discussion will point out that after Tsai Inn-wen was elected as the first female party chairman in 2009, the DPP gradually stepped out of the shadows. As former MAC chairman, Tsai's wealth of experience in mainland affairs helped her to make use of the cross strait issue to skilfully integrate the party's core supporters while consolidating her leadership with a series of radical

protests on the street when CCP high ranking delegates visited Taiwan. Following this, in the third section, the researcher will argue that the DPP ignored other social economic issues, mostly related with the island's gradually worsening economic inequality; this was important in terms of winning the power back given that the KMT did not work to resolve these issues after its return to office in 2008. In the final section, the researcher will demonstrate that the best opportunity for the DPP to return to the power is rising from South Taiwan: rapid cross strait economic interaction is valuable to reducing the southern people's hostility to mainland china, but is very limited in terms of changing their basic party orientation (anti-KMT) and national identity (against the idea of reunification with the mainland). When the KMT made mistakes in domestic and local affairs which disappointed the populace, the DPP became optimistic that they would win back central power through victory in local elections, especially the five large municipalities' elections which would be held in November 2010.

8.1 The reasons behind the DPP's failure in 2008

After the loss of the 2008 presidential election, there were many of meaningful discussions inside the party about the reasons for the DPP's failure. For example, the DPP presidential candidate, former Kaohsiung mayor and ROC Premier Frank Hsieh, published an article in the *China Times*.⁴⁸⁹ In addition to his surprising announcement that he would no longer join any nation-wide presidential or party chairman election, Frank Hsieh also apologized to the public for the poor performance of the DPP government in the previous eight years since he had acted in some of the most

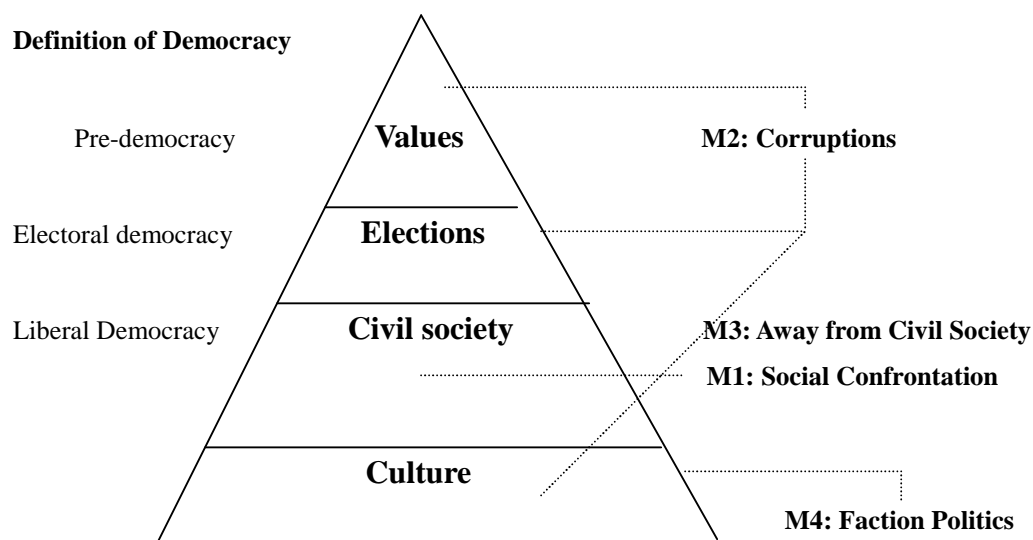
⁴⁸⁹ Frank Chang-ting Hsieh, "My Introspection and future perspective", *China Times*, 12 April 2008, A22.

important positions in the administration.⁴⁹⁰ Hsieh attributed the DPP's failure to four major reasons. First, the DPP created more social conflicts than harmony – especially when fighting with the KMT. Second, a series of political scandals – the main one being former President Chen Shui-bian's corruption and abuse of government funds – not only led to the significant defeat in three nationwide elections from 2005–2008 which caused the DPP's ultimate loss of power, the incident also revealed that the DPP had lost its core values – moral courage and justice to prevent party corruption – which had been the major difference between the DPP and the KMT prior to the DPP's rise to office in 2000. Third, the DPP did not meet the expectations of civil society and was too weak to reduce the worsening poverty gap. Fourth, the DPP was notorious for its political struggles inside the party factions and was seen by the public image as incompetent and belligerent. If we use the theoretical framework of the four stages of democratic development created in Chapter 3 to compare Frank Hsieh's analysis on the DPP's problems during their eight years in power, it is easy to see that the DPP had made various mistakes in different levels of democratic development (Figure 8.1): Instead of promoting democratic values (level 1), establishing fair and efficient institutions (level 2), creating the strong social capital (social trust), civil society (level 3), and healthy culture (level 4) that any democracy should have, the ideological Taiwanese nationalism and tradition of faction politics (mistakes 3) had made the DPP, especially Chen Shui-bian's power circle, unable to make use of the

⁴⁹⁰ Hsieh was one of the founding members of the Democratic Progressive Party (the current name of the DPP was believed to have been proposed by Hsieh) and he served as its chairman from June 2000 to 2002. A two-time Taipei City councilor from 1981 to 1988, and a member of the Legislative Yuan from 1989 to 1995, Hsieh ran in the 1996 presidential as a vice-presidential candidate with Peng Ming-min on the DPP ticket. He was the mayor of Kaohsiung City until his appointment as Premier of the Executive Yuan on February 1, 2005. He announced his resignation from the post of premier on January 17, 2006. Hsieh was the DPP nominee in the 2008 presidential election but was defeated by Ma Ying-jeou.

state machine for personal benefits and consolidation of power by feeding its corrupted patronage clients (mistakes 4: corruption). The price was that the DPP gradually moved away from civil society (mistake 2), its major social support, and increasingly faced social confrontations (mistakes 1). Finally, they were forced out of power by the public vote.

Figures 8.1: Four mistakes which caused DPP's failure in 2008 (in democratic development analysis)



M: Mistakes

Source: Author's compilation

8.1.1 Social confrontation

In addition to the disputed policies that were out of favour with the general public, the misuse of policy instruments (i.e. referendums, provocative diplomacy) in the name of democratic consolidation and combining democracy with Taiwanese

nationalism generated different social conflicts in the eight years when DPP was in power. One critic pointed out that DPP members had considered themselves superior in promoting Taiwan's democracy to their counterpart in the KMT; the DPP represented the fundamental psychology of Taiwanese people, and only the DPP understood what democracy was and where Taiwanese democracy should go.⁴⁹¹ However, in fact, compared with the KMT's previous long standing Taiwanization policy – tolerance to opposition and the successful creation of a social economic base for democratic development – the DPP's psychology and mentality appeared relatively narrow prejudiced and only focused on criticizing the KMT. As the other DPP political heavyweight Su Tseng-chang pointed out (Su was former Taipei County Mayor (2001–2005), ROC Premier (2006–2007), and the existing DPP candidate for Taipei City Mayor in the five forthcoming large municipality elections. Su was also very hopeful of representing the DPP when running for the next presidential election in 2012), it is impossible for DPP to return to the power if they only rely on criticizing the KMT.⁴⁹² After eight years in office, the DPP did not enjoy any legitimacy of reform because the KMT was no longer an authoritarian party. The other perspective coming from the former famous DPP legislator Li Wen-chung is also very persuasive in explaining why the KMT was more popular and accepted by the Taiwan public than the DPP: Li pointed out that the KMT's image of being well- experienced in foreign and economic affairs and was still deeply rooted in people's mind even after an eight-year leave from office.⁴⁹³ As the analysis in Chapters 4 and 5 indicated, Taiwanese people were tired of the chaos caused by democratic struggling during

⁴⁹¹ Ze-xun Niu, "517 Mobilization: Still Old Strategy?" *United Daily News*, 13 May 2009, A13.

⁴⁹² *China Times*, "Su Tseng-chang: Only by Criticism on KMT, DPP will Never Return to Power", 22 June 2009.

⁴⁹³ Wen-chung Lee, "Only opposition, it is hard to return to power", *China Times*, 11 April 2008.

Chen's administration and preferred the political stability which was considered more possible when KMT was in office.

Another famous former DPP legislator, Kuo Zheng-liang, pointed out it was difficult for the DPP to appease people be seen as reliable due to its historical background and limitations. Most DPP politicians or professionals in government affairs have experienced suppression by the KMT and many were even forced to escape overseas from Taiwan during the KMT's authoritarian ruling period. When they were recruited and invited to be members of government when the DPP went to power in 2000, they found precise policy making and implementation difficult owing to insufficient and incorrect information, especially in the fields of national security, defence and mainland affairs. Most civil servants showed high loyalty to the KMT's regime and were unwilling to cooperate with the DPP if they lacked the neutrality which was an important democratic value. To make matters worse, if these DPP "elites" could not adapt to their partners and put their sentiment aside then conflicts were inevitable, and irrational policy making took place. This uneasy situation was a widespread phenomenon during the DPP's term in office from 2000 to 2008.

8.1.2 Erosion of social base

While there was very limited expansion of widespread public support, the DPP lost some of its traditional social base during its eight years in office. Compared with the KMT's strong cross-class coalition constructed over 40 years of single party authoritarianism (including mainlanders, government employees, the military, farmers, workers, and big business),⁴⁹⁴ the DPP's traditional support mainly consisted of

⁴⁹⁴ Hai-tao Ju (2006), *The DPP's Social Basis*, Taipei: Buffaloes Publishers, p.15.

native intellectuals, some entrepreneurs in small and medium sized business, urban middle class, and younger generations. In the rural area, the combination of local gentry and a grass-root democratic movement was also a characteristic of the early stages of the DPP's development.⁴⁹⁵ After 1990, the public in the central and southern villages gradually joined the DPP and consolidated its basic regional support in the southern area.⁴⁹⁶ The DPP benefited from a resentment in southern Taiwan caused by the wide discrepancy in government spending between North and South. In addition, the good performance of DPP county mayors in the south helped to establish a good reputation, and, where Taiwanese consciousness was strong, was advantageous in emphasizing the Taiwan's identity, including language and culture as well as Taiwan's independence.⁴⁹⁷ Meanwhile, the DPP was also considered as having better interaction with disadvantaged social groups, including the elderly, woman, farmers, labourers and environmentalists, due to three waves of rising social movement in 1980. As Michael Hisao's analysis showed in Chapter 3.5, the rising social movements resulted in a good combination of anti-KMT mercantilism (economical) and opposition to authoritarian dominance (political).

After eight years of DPP administration, the DPP's social basis was expanded but had noticeably eroded in urban areas and some social groups. The DPP also lost huge numbers of women and young voters to the KMT; the DPP had generally been considered as more attractive to these groups due to its fashionable image and fancy and campaign style. The island's poor economic performance, worsened poverty gap, slow growth of income and high unemployment rate were undoubtedly the major reasons that disappointed the urban middle class and young generations who

⁴⁹⁵ Ibid., p.41.

⁴⁹⁶ Ibid., p.56.

⁴⁹⁷ Hong Liu (2006), *The condition of DPP in power*, Taipei: Buffaloes Publishers, p.27.

possessed a strong sense of social justice and were greatly concerned about how to improve quality of life rather than with politics and ideological debate.⁴⁹⁸ On campuses, the fervour of students seen in the 2000 and 2004 presidential elections for the DPP's Chen Shui-bian was not as apparent in 2008, less than 20 per cent of students professed their support for the DPP, who in 2004 had received 60 per cent of the younger groups' support and 30,000 more voters than the KMT.⁴⁹⁹

In fact, the DPP's failure to improve its fundamentally weak organizational development was the major reason for its gradual alienation from the social groups. Unlike its counterpart KMT who owned considerable party assets which gave stable support to the development of party organizations and relations with social groups both in the authoritarian period and after democratization, the DPP gradually moved to a more "efficient" way of seeking popular (and electoral) support through personal performance in parliament (Legislative Yuan) and the media rather than costly and time consuming consolidated organizational development at the grass-roots level.⁵⁰⁰ Moreover, the DPP even considered the "traditional" radical, violent and anti-system street demonstration which they had previously adopted was disadvantageous for them to gain the widespread popular support necessary to win central power.⁵⁰¹

⁴⁹⁸ Interview with Mrs. Cha-ching Shu, who is the current DPP member of Taipei City Council, 3 May 2010.

⁴⁹⁹ International Herald Leader, "The investigation of political situation after Taiwan 80's generation", 12 December 2007.

⁵⁰⁰ The DPP weak support in local level constituency can be easily found in their less share of county mayors and representatives. For example, in 2005 ROC County and Township Mayors and Representatives election, the 5th year of Chen administration in power, the DPP only won 192/901 seats (22.25%) of county representatives and 35/319 township majors (23.69%).

⁵⁰¹ The strategy is confirmed after "1992 party transformation" when Hsin-liang Hsu acted as party chairman. The basic idea of 1992 DPP party transformation was that the DPP's policy should focus more on the economic and social issues rather than the radical appeal for Taiwan independence. This change was proved successful when the DPP won a unprecedented victory (31 per cent of

Meanwhile, the successful experience of Chen Shui-bian's unanticipated victory in the 2000 ROC presidential election undoubtedly enhanced the belief that sensitive campaign issues and even a charismatic candidate were more useful to gain the media attention essential to a positive outcome in a nation-wide election.

When Chen Sui-bian became the incumbent in 2000, the DPP started to realise that the media did not “favour” them anymore and it was vital that it enhanced its weak social basis. However, as argued in Chapter 4.4, Chen Shui-bian wavered in several controversial policies (i.e. the reconstruction of a fourth nuclear power plant) and his feebleness with regard to Pan-Blue Coalition obstructionism actually hindered his intention and ability to do anything new. In some aspects, Chen found out it is very difficult to erode the Pan-Blue's social basis since the KMT enjoyed consolidated support from mainlanders, government employees, the military, farmers, workers, and big business. By the same token, most of the DPP administration's proposals failed in the legislative check, obviously limiting their administrative resources – essential to maintaining the relationship with their fundamental supporters, especially environmental protection and pro-Taiwan Independence Groups; in fact, before the DPP went to office, the Environmental Protection Coalition and Labour Frontline had stepped out of New Tide, the largest faction inside the DPP in the early 1990s. The former even organized a Taiwan Green Party in 1996.⁵⁰² In 1997 there was a demonstration against the creation of a fourth nuclear power plant, at midnight at the end of the movement it was somewhat embarrassing that even the Anti-Nuclear Group had quarrels with the DPP.⁵⁰³ The DPP were already distanced from these

votes, 50 seats) in the legislative election.
<http://big5.china.com.cn/chinese/zhuanti/mjdzx/778128.htm>. Cheng Wen-sheng and Wang Ru (2006), *DPP Electoral Strategy*, Taipei: Buffalo Publishers.

⁵⁰² Yi-zhou Yang (2006), *DPP's Organizations and Factions*, Taipei: Buffaloes Publishers, p. 32.

⁵⁰³ Ibid., p. 37.

social groups before they went to the office in 2000.

8.1.3 Factionalism

The DPP's factionalism was obviously more public and institutionalized than that of its counterpart, the KMT. Compared to the KMT's top-down authoritarian control which produced mainlander and local Taiwanese factions, the DPP's factions are rooted in different generations who began as a group or coalition of anti-KMT elements working together to bring about political reform.⁵⁰⁴ Table 8.1 shows the five major factions inside the DPP. Each faction was built around a various relationship and composed of different generations. The members of each faction all later became DPP major political celebrities, occupied important political positions, and dominated various directions of the DPP's policy and strategies. From Dangwai to getting the power in 2000, the functions of the factions were always controversial –positively, the factions performed certain party functions that were helpful to provide a channel for the party to unify diverse elements into compromises, develop a balance of power inside the party, recruit political newcomers, and an institutionalized procedure for efficient nominations for different elections including party and public careers; the culture appeared pluralistic⁵⁰⁵ and showed high respect to democratic values. However, negatively, the factionalism created the impression that the party was not unified, drew attention to conflict and dissension, and therefore undermined the party's credibility and electoral appeal.⁵⁰⁶ For example, the factionalism undoubtedly

⁵⁰⁴ Shelly Rigger (2001), *From Opposition to power: Taiwan Democratic Progressive Party*, Lynne Rienner Publishers, Inc., p. 72.

⁵⁰⁵ Julian. J. Kuo (1998), *The DPP's Ordeal of Transformation*, Taipei: Common Wealth Magazine, p. 25.

⁵⁰⁶ Ibid., Shelly Rigger (2001), p. 83.

created difficulties for comprehensive policy making as the faction leaders and members tended to focus their attention on superficial and short-term concerns over electoral victory rather than a long-term and comprehensive policy direction for the whole party. The growing low mutual trust between factions also confused rational debate inside the party and faction members tended to attribute disagreements to faction-based conspiracies.⁵⁰⁷ Moreover, the factionalism even produced the problem of “nominal party members”, leading to persistent rumours of vote buying and a tendency for bad candidates to eliminate good ones.⁵⁰⁸ A general case of faction conflicts during the DPP’s administration happened at the end of 2007, causing fatal damage to the party’s unity, and was widely believed to be the major reason for the chaotic nomination which led to the DPP’s serious defeat in the 2008 legislators’ election. In the process of nomination, a controversial mechanism was proposed to exclude Pan-Blue respondents from participating in the opinion polls that the party was to use to choose candidates in its primaries. The “blue exclusion clause” stipulated anyone who did not vote for a DPP or Taiwan Solidarity Union (TSU) candidate in the previous presidential, local or legislative election would be disqualified from taking part in the opinion poll. The entire debate is also a striking example of the anxiety being caused by the new single-seat district system that would come into effect with the coming legislative elections in December. The proponents believed that the simple questions in the traditional poll system could not filter out Pan-Blue voters who would distort the DPP’s primaries and thus the DPP’s nominations. The DPP’s primary values were only advantageous for those people who enjoyed high support inside the party. Outside the DPP, their support was very low.⁵⁰⁹

⁵⁰⁷ Ibid., Julian J. Kuo (1998), pp. 25–55.

⁵⁰⁸ Yi-zhou Yang (2006), *DPP’s Organizations and Factions*, Taipei: Buffaloes Publishers, p. 65.

⁵⁰⁹ The first question could be: "Have you paid up your party dues?" The second question could ask:

The phenomena is similar to the problem of “nominal party members” mentioned above in that this kind of candidate may have led in opinion polls but could ultimately lose the election – especially in the new single seat district system which required the elected candidate to win majority support. Unfortunately, the new poll system was finally adopted, with detrimental results for the party. The 11 party heavyweights, who enjoyed good reputation among the public, were dubbed as the "11 Bandits" inside the party and failed in the nomination for the 2008 legislators' election.⁵¹⁰ The "most united" and "patriotic" members of the DPP called DPP Legislator Hsiao Bi-khim "China Khim" and Straits Exchange Foundation Chairman Hung Chi-chang "China-bound Chang". The party's nomination policy and exclusiveness had not only stunned Taiwanese society but demonstrated the huge negative impact of a new rift between non-localization and pro-localization factions, leading to the further decline of the DPP. For the DPP, qualification for public posts became based on political ideology rather than ability. As Chen Fang-ming criticised: “A ‘democratic’, ‘progressive’ party cleansed itself of dissidents; it became a mockery to Taiwan's democratic movement.”⁵¹¹

"Do you hold onto your own party membership card?" And the third could be: "Are you voting in the primary on your own accord?" Naturally, anybody with any sense will question the efficacy of asking these three questions, since every party member is going to answer "Yes, yes and yes." If this method won't work to get rid of nominal DPP members, then how is the Blue exclusion clause going to filter out Pan-Blue voters?

⁵¹⁰ *The Liberty Times*, “The Failure of 11 Bandits: Su Tseng-chang urged DPP Insistence on Founding Values”, 21 May 2007, <http://www.libertytimes.com.tw/2007/new/may/21/today-p1.htm>.

⁵¹¹ Chen Fang-ming, “DPP needs Way of Defining Localization”, *Taipei Times*, 16 January 2008, p. 8.

Table 8.1: DPP's Factionalism

Name of Factions	The origin of the faction (Political generation)	Famous politicians (highest political position)	Policy and strategy
The Formosa Faction	Staff from Formosan Magazine in 1979	1. Huang Hsin-chieh (DPP Party Chairman) 2. Hsu Hsin-liang (DPP Party Chairman)	Demonstrations to achieve political reform
The New Tide Faction	Students who became active in politics in the mid-1970s	1. Chiou I-Jen (Vice Premier of ROC) 2. Lin Cho-Sui (Legislator) 3. Wu Nai-Jen (DPP Party's Secretary General)	Ideological purity and direct action over pragmatism and electoral politics
The Justice Alliance	Attorneys who defended the Formosa Magazine Staff arrested in 1979	Chen Shui Bian (President of ROC 2000-2008)	
The Welfare State Alliance		Hsieh Chang Ting (Premier of ROC)	
The Taiwan Independence Alliance	Members of the World United Formosans for Independence – returned from overseas between 1990 and 1995	Chen Tang -Shen	

Source: Author's compilation

8.1.4 Corruption

Nothing harmed the DPP more than the damage caused by allegations and court cases involving former president Chen Shui-bian, who left office in May 2008 after eight years as president and was then charged with embezzlement, taking bribes, money laundering, influence peddling and blackmail. The short-term political consequence was reflected in the DPP's overwhelming failure in the two major elections in 2008 (legislative elections in January and the presidential election in March), which caused their power loss and transferral to their counterpart, the KMT. From a long-term perspective, the corruption scandal had a devastating impact on the DPP in terms of the party's considerable loss of political legitimacy and public trust. First, the corruption scandals destroyed the long-established party image and core values of the DPP. The DPP had always portrayed itself as representatives for justice and honesty in Taiwan politics, compared to its overbearing and often-corrupt rival, the KMT. The DPP was definitely cleaner, more honest, upright and free-handed than the KMT's frequent vote buying and slandering. Moreover, the DPP was also proud of its traditional asymmetric confrontations with the KMT who enjoyed disproportionate administrative resources and party assets. But this time, Chen's corruption stunned the public who saw the illegal behaviour of the Chen family and the inner circle as more ridiculous and greedy than any other case; people started to believe there was no difference between the DPP and the KMT. Meanwhile, Taiwan was working hard to appeal to the international community for its de facto existence and even sought to return to the UN; the political scandal and its subsequent public investigation into and sentencing of a national leader⁵¹² helped Taiwan to achieve this goal although they

⁵¹² *The Wall Street Journal*, "Trying Taiwan, Chen Shui-bian Jailing in a Pivotal Moment for Taiwan", 15 September 2009,

also received shame rather than winning a good name. Chen's justification that the money saved overseas was the public funding for Taiwan's independence also angered the core supporters of the Green Group. In a word, after 20 years of democratization (1986–2006), the Taiwanese general public was already tired of the reciprocal collusion between elites and entrepreneurs, misuse of public power for private gain, and election as a kind of “money game” for very personalistic and candidate-centered play.⁵¹³ Instead, they cherished the established democratic institutions and hoped the institutions could work autonomously, creditably and fairly so that under these institutions anyone could be outstanding through personal effort no matter how poor and difficult their personal background, like Chen Shui-bian's in his youth. Chen's illegal behaviour demonstrated by his corruption was the worst story of Taiwan's democratic development and the manipulation of the fair institutions which had actually helped him to rise up in politics .

8.2 The development of DPP after Tsai Ing-wen elected as party chairman

8.2.1 First female DPP chairman

On 18 May 2009, Tsai Ing-wen, the former vice premier and chairman of the Mainland Affairs Council during Chen Shui-bian's administration (also famous for her role of convener of the drafting team on the special State-to-State theory for KMT President Lee Teng Hui in 1999) was successfully elected as the twelfth DPP

http://online.wsj.com/article/SB10001424052970203917304574412742093565248.html?mod=googlenews_wsj

⁵¹³ Lynn T. White (2009), *Political Booms, Local Money and Power in Taiwan, East China, Thailand ,and Philippines*, World Scientific Pub Co. Inc, pp. 600–650.

chairman with 57.14 per cent support and defeated her major competitor (Koo Kwang-ming, a typical hardliner of Taiwan's Independence, only got 37.81 per cent support in the election) by almost 20 percent.⁵¹⁴ On the road to rebuilding the DPP, Tsai faced challenges both inside and outside the party. Externally, a series of snowballing corruption scandals surrounding Chen's administration were still deep rooted in people's mind which caused great difficulties for the DPP in respect of regaining trust among the public. Although the DPP defined itself as the best balance to check the absolute power that the Pan-Blue camp enjoyed, the appeal was quite weak at this moment as the KMT had returned to the power for a short time and the general public had high expectations on Ma's administration. Inside the party, the DPP's heavy defeat in the legislative elections in January and the presidential election in March 2008 caused by the corruption scandals mentioned above explained the DPP's weak survival power base, only 27 (of 113) representatives in the Legislative Yuan and 6 (of 25) cities and counties in South Taiwan indicated that Chairman Tsai was facing the most difficult period since the DPP was formed 22 years ago. Unlike the situation when the KMT stepped down in 2000, the DPP did not have strong financial ability and struggled to build a think tank – was composed of government professionals who had performed well when the DPP was in power – to maintain the comprehensive political ideas and policies the party had long stood for.⁵¹⁵ On the other hand, Tsai's lack of experience in elections and her brief DPP membership made her the target of challenges from influential politicians, especially those who had acted in the highest government positions and represented the DPP in the runnings for ROC president – including former vice president Annette Lu, former premier Frank

⁵¹⁴ *The Liberty Times*, "Elected as Party Chairman, Tsia Ing-Wen: DPP will stand up again!", 18 May 2008, <http://www.libertytimes.com.tw/2008/new/may/19/today-t1.htm>.

⁵¹⁵ *China Review News*, "Green Camp Think Tank leads DPP to stand up", Vol.147 (March 2010).

Hsieh, Su Tseng-chang and Yu Shyi-Kun.⁵¹⁶ For example, former vice president Annette Lu criticized Tsai as being unqualified as party chairman in that she had only four years of party membership (Tsai joined the DPP in 2004) and did not have any experience in elections. (Tsai was elected as legislator-at-large in the 2004 legislative election).⁵¹⁷ Compared to other party chairmen in the DPP's history, such as Hsu Hsin-liang (5th, 1991–1994; 7th, 1996–1998), Shih Ming-teh, (6th, 1994–1996), Lin Yi-hsiung (8th, 1998–2000) who enjoyed the reputation of suffering court martial and imprisonment; or Chen Shui-bian (10th, 2002–2004; 11th, 2007–2008), Hsieh Chang-ting (9th, 2000–2002) who enjoyed the reputation of good performance as legislator and city mayor, Tsai Ing-wen lacked the traditional charisma to consolidate the DPP's basic support.⁵¹⁸ Meanwhile, Tsai was trying to prevent the DPP from falling into problems of a split owing to diversified interaction with former Presidential Chen Shui-bian. After former President Chen Shui-bian's acknowledgement of transferring past campaign funds overseas, Tsai apologized to the public and also said that the DPP would not try to cover up for Chen's alleged illegal behaviour. Tsai also vowed to sweep up any and all corrupt members in the party and set up a special internal investigative committee for the task. Nevertheless, to save the DPP from Chen's negative influence was not as easy as Tsai expected.⁵¹⁹

⁵¹⁶ These four people were nicknamed “the Four Heavenly Kings” of the DPP because these four DPP heavy weights all rose in politics from county mayor and later acted in the most important positions (vice president and premiers) in the Chen Shui-bian administration when the DPP was in power during 2000–2008.

⁵¹⁷ *SinaNews*, “It is Unclear whether Tsai Join the Election; Annette Lu Criticized Tsai is Not Strong Enough”, 16 May 2010, <http://dailynews.sina.com/bg/tw/twpolitics/phoenixtv/20100516/07411446488.html>

⁵¹⁸ *Ibid.*, Hong Liu (2006), p. 17.

⁵¹⁹ *Agence France Presse* (AFP), “Taiwan ex-President Quits Party over Alleged Money Laundering”, 15 August 2008, http://afp.google.com/article/ALeqM5gv6SiwXWiozgYPCgv00g6f_s2eQA.

The process of nomination for the next Tainan county election was the first difficult lesson for Tsai to deal with. In the name of improving the public image and returning to the DPP's core values, the DPP preferred to nominate a new candidate and finally Legislator Lai Ching-te emerged as the candidate for the Tainan municipality mayoral election in late November 2010.⁵²⁰ However, the nomination process was constantly under the shadow of Chen's interference. Initially, former Presidential Office secretary-general Mark Chen said he would enter the race, no matter whether the party nominated him or not. Later, there were even rumours that Chen Shui-bian would run in the 2010 Tainan magistrate election, or the seat to be vacated (legislator); even though Chen himself had been on trial for his corruption he would be allowed to run for public office until he was finally convicted by the Supreme Court.⁵²¹ DPP leaders believed that Chen could easily win the magistracy if he decided to go for it, and at least, it would undoubtedly cause a big impact to the DPP's campaign work even though it enjoyed stable and superior support in this area.

8.2.2 Cross-Strait negotiations and DPP's reaction

A series of cross-strait negotiations after the KMT returned to power in 2008 provided Tsai a good platform to stage a comeback DPP and consolidate her leadership inside the party; especially Chen Yun-lin's five-day visit to Taiwan during 3–7 November 2008. As mentioned in the previous chapter, the second Chang–Chen

⁵²⁰ *CAN News*, "Talk of the Day – Lai Emerges as DPP Candidate in Tainan, 5 May 2010, http://daily.taiwannews.com.tw/etn/news_content.php?id=1250267&lang=eng_news&cate_rss=news_Politics_TAIWAN.

⁵²¹ *The China Post*, "Chen Shui-bian May Run for Legislative Yuan", 13 March 2009, <http://www.chinapost.com.tw/taiwan/national/national-news/2009/03/13/199897/Chen-Shui-bian.htm>

Talk was the first time cross-strait negotiation had been held in Taiwan, and Chen Yun-Lin, who headed the mainland's semi-official ARATS, was considered the highest-ranking Chinese official to visit since the sides divided amid civil war in 1949. The DPP found it was an unprecedented chance to express its basic ideas on Taiwan's status (Taiwan is not part of China) in front of a PRC high ranking officer. A more radical protest method was preferred as with only 27 legislators in Congress the DPP had few chances to represent other segments of the population who felt a strong suspicion toward China and unease with the fast pace that Ma Ying-Jeou was moving to build closer ties with China. However, too many concessions were made and the effect was not so efficient after being in office for only five months. To make matters worse, the attack on Chinese envoy Zhang Ming-qing and Ma administration's weak and passive handling of the scandal over melamine-tainted food imported from China had further fuelled unrest – it was unlikely that a large scale conflict would be avoided during Chen's visit to Taiwan. Mr. Zhang, the ARATS vice chairman, was surrounded by protesters who became violent and pushed him to the ground while visiting Tainan City's Confucius Temple in the morning of 20 October 2008, just two weeks before the second Chen–Chiang Talk. These Pro-independence protesters in southern Taiwan yelled to Zhang and shouted that their island did not belong to Beijing.⁵²² On 25 October, about one week before Chen's visit, an estimated 600,000 people were reported to have participated in a peaceful protest, named "1025 March" (police gave a figure of about 180,000), planned by the DPP as a response to the mainland Chinese tainted milk powder scandal and as an action to safeguard Taiwan's sovereignty.⁵²³ On 5 November, the third day of the second Chen–Chiang

⁵²² *BBC NEWS Channel*, "Chinese Envoy Attacked in Taiwan", 21 October 2008, <http://news.bbc.co.uk/1/hi/world/asia-pacific/7681556.stm>.

⁵²³ *The Liberty Times*, "60 Thousand People Shouted Angrily and Denounced Ma's Incompetence", 26

Talk in Taipei, the DPP were unable to prevent the use of violence when Chen Yun-lin was stranded at the Grand Formosa Regent Taipei hotel for nine hours as pro-independence activists surrounded the building, where a dinner was being hosted by KMT Chairman Wu Poh-hsiung in Chen's honour. The event forced the meeting between President Ma and Chen Yun-lin held at the Taipei Guest House near the Presidential Office, to move from its scheduled time of the afternoon of the next day (November 6) to the morning. The high-profile meeting between President Ma Ying-jeou and China's top negotiator with Taiwan ended after only seven minutes, with the two parties exchanging gifts at this historic moment.⁵²⁴

The incident brought each group different lessons and the following political consequences. For the DPP, in addition to the protest march having been the largest successful mobilization after the DPP lost power in 2008, the movement of riot police to disperse protestors – generally believed ordered by administration – was criticized as an over-reaction, and the final domination at midnight helped the DPP to refresh the public distrust of the ruling KMT – some remembered the days the KMT ruled the island under martial law and the clashes between pro-democracy demonstrators and police. Many people accepted rumours that Ma had ordered ROC national flags to be taken down to avoid offending Chen. Ma met with reporters to deny the rumour, saying he gave no such orders and repeated that facilities and locations should maintain their normal look. He added that anyone could protest as long as they did it legally.⁵²⁵ For the KMT, even president Ma had reassured the public he would not jeopardize Taiwan's sovereignty and vowed to ensure transparency in the talks. The

October 2008, www.libertytimes.com.tw/2008/new/oct/26/today-t1.htm.

⁵²⁴ Cindy Shui, "China's Envoys takes Taiwan in his Stride", *Asia Times*, 8 November 2008, <http://www.atimes.com/atimes/China/JK08Ad01.html>.

⁵²⁵ *United Daily News*, "Ma Ordered ROC Flags not to be taken down where Chen Visit", 14 November 2008, A3.

Ma administration's weakness in communication was revealed in his inexperienced negotiations, with neither consensus from the public nor legislative support inside the party. Ma's administration started the negotiations through two periods of "unofficial" talks: KMT-CCP discussed the principle first and then SEF-ARATS checked the details. The opposition criticized that the KMT-CCP dialogue was a kind of "black box" secrecy and the exchange between the quasi-official "SEF-ARATS" lacked a legal foundation: the interaction between these two "white gloves" had violated the most fundamental democratic principle, at the very least it should have been approved by the Legislative Yuan and the complete exclusion of legislative monitoring had intensified other anxieties.⁵²⁶ For President Ma, the issue was about his leadership in the KMT. Even though he had been ROC president with unprecedented majority support from central (Legislative Yuan) and local levels, it was still difficult for him to coordinate efficiently between the executive, legislative and party machines. Ma only controlled the executive division because the president cannot do anything on mainland affairs after nominating the premier and the MAC chairman; the KMT legislators mostly followed Wang Jin-pyng and the major negotiator, Chiang Pin-kung had better interaction with KMT heavyweight Lien Chan, who was the former party chairman and KMT presidential candidate in 2000 and 2004. It was generally believed that the difficulties mentioned above were the major reasons why President Ma decided to hold a concurrent job of a party chairman at the end of 2009.⁵²⁷

For Tsai Ing-wen, although she had laid down the guidelines to prevent violence occurring during the demonstration, the overnight protest after the high-profile

⁵²⁶ Shioh-duang Huwang (2010), "Beyond the Border Agreement and Congressional Supervision," Current Affairs Review, *Taiwan Journal of Democracy*, Vol. 7, No. 1 (March, 2010), pp. 45–55.

⁵²⁷ Nian Huwang (2008), "The Hard Lessons before Ma: Five Tracks and Eight Heavyweight inside the KMT" in *Such a Chen Shui-bian, The Records of DPP in Power, 2000–2008*, p. 458, Taipei: Lian-jing Publishers.

meeting between President Ma Ying-jeou and Chen Yun-lin on 5 November finally went out of control and turned into serious violence in front of the Grand Formosa Regent Taipei Hotel. Tsai later apologized to the public about the violent protest and attributed the riot to the subversion of gangster, however, the radical movement was remembered by the public – an image that DPP tends to use violence when they lose power – Tsai was even nicknamed “Violent Shiao Ing ” which mocked her as being the violence organizer while feigning innocence and non-involvement with the riot.⁵²⁸ Nevertheless, the demonstrations were positive to the negotiations in some aspects. The island’s raucous democracy had left China’s delegate a stronger impression and more realistic understanding that it might be difficult for the CCP to win the hearts of Taiwanese people.⁵²⁹ After all, after 20 years of democratization, people in Taiwan had got used to conflict inside the democratic system. Even though the work of CCP negotiation teams seemed to be more autonomous and efficient, in the Taiwanese public’s eyes it was seen merely as an administrative agency to implement the will of the CCP; that the PRC’s authoritarian system put the party above the state was out of fashion and definitely not accepted in Taiwanese society. However, whether a small and democratic Taiwan would be capable of keeping negotiations equal and talk with a large but authoritarian China in the future were undoubtedly the most important lessons for the Taiwanese government no matter the pro-unification KMT or the pro-independence DPP were in power.

⁵²⁸ Tsai “Ing” Wen has the same second character in her name as Ma “Ing” jeou, after she became DPP chairman, people started to call her Shiao Ing when comparing her performance with KMT Ma Ing-jeou.

⁵²⁹ Ibid., Cindy Shui (2008), <http://www.atimes.com/atimes/China/JK08Ad01.html>.

8.3 New social issues for the opposition

For the DPP, the island's long term economic difficulties provided them a clear and more easily grasped issue to criticize the Ma administration, and another opportunity to return to power in the future. As discussed in the previous chapter, the island's general public did not feel strongly about the benefits of closer cross strait economic interaction. The public reaction showed that even though Ma's administration was expected to reconstruct the island's economy by cooperation with China and focusing on how to maintain economic growth, the policy was considered a short-sightedness of equal distribution and only advantageous for certain social classes – especially those Taishang capable of benefiting from the mainland market. Without a fair or sophisticated policy to lessen inequality, and as more and more people became the poor class, issues about how to solve the problem of the worsening poverty gap became the major focus of the public policy debate. Growing resentment at government performance reflected in electoral support was hugely disadvantageous to the incumbent KMT and become a potential factor to change the island's politics in the near future. Nevertheless, the discussion of this section will reveal that the DPP did not seize this opportunity, seeming to follow in the KMT's footsteps and did not provide any new ideas to make use of new social issues gaining public support – essential to their future possible return to central power.

8.3.1 The poverty gap in Taiwan

The poverty gap in Taiwan's is a normal case of global economic liberalization. With the growth of marketization and privatization, few people can work in the financial or high-tech manufacturing industries. These people enjoy most benefits;

control the greater part of social wealth, but require higher professional and working skills. Moreover, the higher level of professional skills require more training and education which is costly and concentrated in the urban areas that not everyone can afford, especially those people in the rural area.

The inequality of job, accommodation and education opportunities had been the major reason for the island's expanding poverty gap. According to the statistics of ROC Directorate General of Budget and Accounting, in 2007, Taiwan's Lorenz curve showed the island's top 20 per cent of all annual household income is 6.05 times that of the bottom 20 per cent; the average annual household income of the top 20 per cent is NT\$1,835,000, but the bottom 20 per cent only have NT\$304,000 (1/62 of top 5 per cent). The island's Gini Coefficient had also reached 0.341 in 2008 which is close to 0.4, the international standard of serious unequal distribution.⁵³⁰ During the global economic recession in 2008, the bottom 20 per cent suffered the most impact as their annual household income reduced by 2.76 per cent, but the top 20 per cent and 40 per cent only reduced by 1.7 per cent and 0.1 per cent respectively.⁵³¹ In the capital city Taipei, a very normal 1,080 square foot house costs an average citizen 115 months' salary (9.59 years).⁵³² Meanwhile, in a 2008 admission test, among 1,200 brilliant high school students who entered the National Taiwan University (NTU), the best leading university in Taiwan, only one student came from a low income family.⁵³³ In Taiwan, most leading universities are public schools, but ironically, the students from

⁵³⁰ Directorate General of Budget, Accounting and Statistics, Executive Yuan National Statistics (ROC), 20 August 2009, <http://www.dgbas.gov.tw/public/Data/9111910134271.doc>.

⁵³¹ *United Daily News*, "2008 Global Financial Crisis: Poor Get More Hurt than Rich", 21 August 2009, A4.

⁵³² Interview with Mrs Jade Wang, who is the agent of Taiwan House, 22 May 2009.

⁵³³ Yun-dong Wang, "NTU Entrance is Tough for Poor Students", *NPF Commentary*, 4 June 2007, <http://www.npf.org.tw/tag?query=%E8%B2%A7%E5%AF%8C%E5%B7%AE%E8%B7%9D>.

rich families have more opportunities to go to public schools, and enjoy more job opportunities after they graduate. The unfair “rules of game” worsen the poverty gap since these rich families have opportunities to “reproduce” their superior social economic positions for their next generations. Education had thus lost its important social function, an important vertical access of social wealth redistribution.⁵³⁴ On 1 December 2009, the ROC Research, Development and Evaluation Commission declared the results of interesting survey, a live vote on “Ten Major Public Grievances”.⁵³⁵ The so called “Ten Major Public Grievances” refers to those current social problems which were considered by general public as most relevant to their daily life and people had high expectations that government should be capable and efficient to tackle these problems. In fact, one can find that among these Public Grievances, the worsened inequality of income and property distributions prevailed. For example, an excessively high housing price in metropolitan areas ranked in top place and high unemployment rate ranked third.

The controversial tax policies of the imputation system (personal tax can be offset by corporation tax) and free stock income tax⁵³⁶ were also “Public Grievances” which actually expanded the island’s social poverty gap and provided a good issue for the opposition party to criticise the government in power. The two taxes referred to are both kinds of capital gains tax (CGT) incentives, favourable to rich people – especially those capitalists who are owners or shareholders of high-tech companies. In Taiwan, the government only taxes the deals of the stock market, not

⁵³⁴ Ibid.

⁵³⁵ *United Daily News*, “No Hit Parade for Public Grievances, No Fast Track for Political Accomplishments”, 27 November 2009, <http://datelinetaipei.blogspot.com/2009/11/no-hit-parade-for-public-grievances-no.html>.

⁵³⁶ Ching – huang Chang (2001), *The Analysis of Imputation System of Corporation Tax & Personal Tax*, Taipei: Taiwan Commercial & Tax Publishers.

the owners or shareholders. Moreover, the shareholders enjoy partial exemption from personal tax after payment of corporation tax (the imputation system). According to the regulations of Taiwan's progressive tax system, those people whose annual income is above NT\$3.72 million must pay the highest rate (40 per cent) personal tax; however, for those rich people who are owners or shareholders, in general, if their annual income is above NT\$3.72 million, 80 per cent of their benefits are from corporation earnings. For these 80 per cent benefits, they only need to pay 25 per cent corporation tax rather than 40 per cent personal tax.⁵³⁷ The policy is unfair to those people who are not owners or shareholders and is obviously a privilege for rich people.

As argued in Chapter 5.3, in order to attract more capital flow into the island and stimulate the weak economy during the global economic recession in 2008, the series of tax reductions superficially seemed to help the KMT government control the island's poor economic performance (temporarily), but essentially caused a further deterioration of government finances, reduced the budgets for public support and social welfare which are the most important measurements for the government to redistribute social income and wealth.⁵³⁸

8.3.2 The DPP still focuses on referendum

While the Ma's administration had high expectations that the island's economy would be reconstructed and become prosperous after direct links, the signing of the

⁵³⁷ Interview with Mrs. Yi-wen Hu, who is the Section Chief of R&D department, Revenue Service Office, Taipei County Government, 29 April 2010.

⁵³⁸ Interview with Mrs. Cha-ching Shu, who is the current DPP member of Taipei City Council, 3 May 2010.

MOUs and ECFA with China, and closer and more stable cross-strait relations, the DPP seemed to follow in the KMT's footsteps and did not provide any new ideas to make use of the new social issues mentioned above in order to increase public support, all of which was essential to their future possible return to central power. Like the proposal of "tax refunds" while the KMT government released "Consumer Vouchers" before the 2009 Chinese New Year (discussed in the previous chapter), the DPP still followed ECFA issues and were unable to raise any constructive criticism or generate new ideas to persuade the public they had better public policy proposals than the KMT.⁵³⁹ The DPP still talked about referendums. Tung Chen-yuan, the former MAC vice chairman of the DPP administration provided five reasons to explain why the ECFA referendum was necessary:⁵⁴⁰ Firstly, signing ECFA was definitely political, and not simple a economic issue because of special relations between Taiwan and China. Secondly, the government had an obligation to let people articulate their worries about the possible negative consequences – most public did not actually understand what was going on and did not have confidence in the government while the Ma administration was eager to sign ECFA with China (the third reason why an ECFA referendum was necessary).⁵⁴¹ One authoritative public poll made by Global Views Survey Research Centre (GVSRC) supports this idea: although 54.4 per cent of people considered signing of the ECFA to be very important to Taiwan's economy and 55.3 per cent said it should not be interpreted as being unified with China, there were still 49 per cent who did not

⁵³⁹ The government distributed vouchers worth NT\$3,600 to every Taiwanese citizen ,and the vouchers could be exchanged for goods and services in shops throughout the country but would be out of date at the end of 2009. For the effects of this policy, please take reference to the discussion in the previous chapter at page 225.

⁵⁴⁰ Chen-yuan Tung, "Why an ECFA Referendum is Key?", *Taipei Times*, 11 June 2009, p. 8.

⁵⁴¹ The TVBS and DPP polls found that 71 per cent and 44.7 per cent of respondents respectively were unclear about the ECFA. The CICD poll showed that merely 10 per cent of respondents understood the content of the ECFA, while 47.5 per cent did not know whether to support it or not.

believe the government would be capable of alleviating the impact of the agreement.⁵⁴² Meanwhile, President Ma considered ECFA to be a kind of FTA and so there was no need for a referendum to decide on such an economic agreement which was still within the range of rights of executive authorization. However, the example of 19 of the EU's 27 members holding referendums on economic integration as part of the EU indicates that Ma's view was not completely accurate (the fourth reason). Finally, the fifth reason is that most Taiwanese supported signing ECFA with China and holding a referendum as well. Several public polls clarified this situation: There were separately 55 per cent (TVBS), 63.8 per cent (DPP), and 59.7 per cent (Taiwan Solidarity Union) of respondents who articulated they favoured a referendum.⁵⁴³

To sum up, the story of signing the ECFA in 2010 in Taiwan still reflected two extreme logics and perspectives about how to define the island's political economic relation with mainland China (open door or protectionism). Moreover, the debate regarding signing the ECFA had become the name of the game for two major political groups (Blue and Green) to win over public opinion and target their own audiences.⁵⁴⁴ As the major opposition party, the DPP still attributed the problem of island's worsening inequality of income and property distribution and massive unemployment to the rapid economic integration with mainland China. The island's economy did not have enough time to restructure and deal with the new environment. As DPP Chairman Tsai-Ing wen said, "There is no urgency for that kind of agreement with

⁵⁴² Ibid, *Global Views Survey Research Centre (GVSRC)*, 22 December 2009.

⁵⁴³ *TVBS Polls Centre*, "Survey on ECFA Referendum", 31 May 2010, http://www.tvbs.com.tw/FILE_DB/DL_DB/doshouldo/201006/doshouldo-20100601201132.pdf, *CNA News*, "TSU Public Polls: near 60% Population Considers there should be an ECFA Referendum", 21 April 2009, http://tw.money.yahoo.com/news_article/adbf/d_a_090421_1_1gehg

⁵⁴⁴ Alan D. Romberg (2010), "All Economics is Political: ECFA Front and Center", *China Leadership Monitor*, Hoover Institution, No. 32 (Spring 2010), p. 4.

China. Our companies are doing OK.”⁵⁴⁵ In fact, when the KMT government aimed its efforts primarily at residents of central and southern Taiwan, low and medium-income households, and small-and medium-sized enterprises (including those in agriculture), the DPP aimed its efforts primarily at young people – especially professionals and those in white-collar service industries, college graduates, housewives and, like the KMT, owners of small-and medium-sized enterprises. Nevertheless, while it is still unclear whether signing ECFA was helpful or harmful to resolving the emergence of social economic problems, the KMT government and the DPP both agreed to hold a debate to discuss the effects of ECFA. It was another milestone in Taiwan’s democratic development history – the first debate between the incumbent president and the opposition leader for a single public issue, not for presidential election. The debate was also advantageous for both leaders to consolidate her or his own power inside the party. However, the debate seemed to lose focus on the economic issue itself and post-debate polls showed president Ma had proven more persuasive and scored points with the public by highlighting the fact that the DPP caucus in the legislature had either not shown up for briefings, or had attended only to disrupt the sessions rather than asking hard questions of the officials , despite the DPP complained they had not received sufficient and relevant information for the debate.⁵⁴⁶

⁵⁴⁵ *Taipei Times*, “Interview: Tsai says no Urgency for the Deal”, 11 May 2010, p. 3.

⁵⁴⁶ *Taiwan News*, “Taiwan DPP Renews Call for True Debate about ECFA with China”, 30 March 2010.

8.4 Rises from South?

The North–South Split in Taiwan is generally believed to have risen from the KMT’s long-term support of the north over the south. As the KMT regime took over Taipei from the Japanese colonial governor for 50 years, the industrialization and urbanization happened earlier in North Taiwan. In addition to being the political centre, Taipei is also the major commercial and cultural centre, the urban area in which most business headquarters, media and universities are highly concentrated in and provides more opportunities for economic and commercial activities, employment and information exchange. Several following economic indicators explain this social –economic cleavage.

8.4.1 The situation of North-South Cleavage

In Taipei, 52 per cent of people over 15 years’ old are higher educated (college or higher), but in Kaohsiung this figure is between 17–36 per cent.⁵⁴⁷ In 1987, the disposable household income in Taipei was NT\$400,000 and in Kaohsiung NT\$320,000, only NT\$80,000 gap between these two major cities.⁵⁴⁸ However, the gap expanded to NT\$580,000 after 21 years: in 2008 Taipei’s disposable household income had risen to NT\$1,260,000 but that of Kaoshiung had risen to only NT\$680,000 (figures provided by the Directorate-General of Budget, Accounting and Statistics).⁵⁴⁹ Not only does the south have lower disposable income levels, but its

⁵⁴⁷ *The Commercial Times*, “How big is the North South Gap? “, 24 September 2006, A7.

⁵⁴⁸ Mei-xia Chen, “The North South Cleavage is getting serious”, *China Times*, 22 December 2006.

⁵⁴⁹ Xue-hui Lu, “Investing countryside, balancing South -North ”, *The Commercial Times*, 26 March 2008, A6.

income growth is also far beyond the northern standard. Along Taiwan's west coast, the highest rate of growth in income is in Hsinchu City, with a NT\$7,200 rise between 1988 and 2006. After Hsinchu, the highest areas of growth are in Taipei City, Kaohsiung City, Taipei County, and Taoyuan County, only one of these cities being located in the south.⁵⁵⁰ In 2005, the employment in Taipei was 1.75 times that of Kaohsiung; the total working population was about 2.8 million, almost 28 per cent of the total labour force of the island. Moreover, the statistic was on the basis of family units, not including a floating population. If the statistic included the floating force, the working population is believed to have been above 3 million, since most of the floating force is actually from the south.⁵⁵¹ Even though people in Taipei are tired of the frequent political struggles in the capital, the residents still show higher confidence in the growing housing market than any other city in Taiwan. According to the investigation of housing needs in the second quarter of 2005 made by ROC Economic and Planning and Development Council, the confidence in the housing market in Taipei city scored 122 marks and Kaohsiung only scored 85.9.⁵⁵²

Meanwhile, in the six years from 2002–2008, the population in Taipei city and county increased by 200 thousand but Kaohsiung's population only increased by 50 thousand.⁵⁵³ Although the regular service of Taiwan High Speed Railroad and Kaohsiung MRT had already started in 2007 and 2008, the expected benefits that the two massive and expansive transportation constructions would stimulate the prosperity of housing market in Kaohsiung seemed to be differ from the local residents' expectation that the two systems were actually more convenient for the rich

⁵⁵⁰ Cho-shui Lin, "the north–south split is losing its relevance," *Taipei Times*, 23 November 2007, p.8.

⁵⁵¹ Ibid., *The Commercial Times*, 24 September 2006, A7.

⁵⁵² Ibid., Mei-xia Chen, 22 December 2006.

⁵⁵³ *United Daily News*, "South Taiwan does not only need a Retired President", 17 December 2006, A2.

from northern cities to purchase houses in Kaohsiung city ,which increased house prices making them more difficult for local people to purchase.⁵⁵⁴ The other situation which proved the existence of the north–south social economic gap was the difference in health conditions between the two areas. The various death rates in the south area were also higher than the north area. For example, liver cancer patients in the northern urban area were more quickly diagnosed than those in the southern rural countryside and therefore survived beyond 3–5 years.⁵⁵⁵ Meanwhile, underground economic activity was more serious in the south. Usurious loans and violence were popular demonstrating that a lot of people in south did not have the ability to pay the loan.⁵⁵⁶ However, ironically, the training and discipline of police in south region was generally considered loose and less professional.⁵⁵⁷ The conditions are believed to be related to the mass psychology in southern regions, as people in these areas are generally considered as “more friendly” and prefer “warmer interpersonal relationships” to following regulations, including the government officials and civil servants. Moreover, people in the south had been found to speak Taiwanese Hokkien more than Standard Mandarin.⁵⁵⁸ The lingual cleavage also enhanced the differences in political identity.

8.4.2 Diversified political identity

The social economic cleavage and mass psychology had therefore created a

⁵⁵⁴ Interview with Mrs Jade Wang, who is the agent of Taiwan House, 23 May 2009.

⁵⁵⁵ *China Times*, “The North–South Split Death Rate is also Different”, 31 March 2008, T1.

⁵⁵⁶ *United Daily News*, “Northern People: More Space for Negotiation; Southern People, Borrow and Run Away”, 6 May 2007, A2.

⁵⁵⁷ *United Daily News*, “North Nervous, South Relaxing: There is also North- South Difference in Police Training”, 21 March 2007, A2.

⁵⁵⁸ Standard Mandarin is officially recognized by the ROC as the National Language; Taiwanese is commonly known as “Taiwanese”; a variant of Min Nan spoken in Fujian province.

deeply different political identity in southern region of Taiwan. As discussed previously, the historical Mei-li-tao (Formosa) Incident happened in Kaohsiung in 1979 and the subsequent series of clamping down on democratic movements enhanced hostility towards the KMT and gradually consolidated the widespread perception of discrepancies in government spending between the north and the south. After DPP President Chen Shui-bian came to power in 2000, his subsequent policy for equal development in the north and the south received a strong response in the south, resulting in a major change in voting patterns. For example, the election results in the major cities and counties of the south were on the whole dramatic, surprising and difficult to predict for the experts, since most voters in southern areas were considered as “latent supporters” of the DPP who had not easily been distinguished by public polls before elections due to their tendency to silence during the KMT authoritarian ruling period. These people were generally the lowest social economic classes and did not have time to care deeply about politics owing to their struggle in their difficult daily life.⁵⁵⁹ However, these voters were influential to election results and became “free” and “enthusiastic” on the electoral date; a situation that was believed to be the outcome of a successful mobilization by the DPP with radical issues and a negative campaign before the election. After the elections, the central and local governments in southern counties for some years disputed the distribution of government budget, important public infrastructure projects, and even the relocation of part of central government offices to the south. For example, in June 2008, the new KMT cabinet made a financial proposal, a NT\$114.4 billion special budget for expanding domestic needs by enhancing the central and local infrastructure which was predicted to

⁵⁵⁹ *United Daily News*, “The Opinion Poll does Work Anymore? The Green Group Latent Supporters Increase more in Kaohsiung “, 10 December 2006, A8.

stimulate economic growth by 0.45 per cent.⁵⁶⁰ The proposal was criticized by the major seven DPP county mayors who declared the budget to be unfair and less helpful to the south of Taiwan and that it should be distributed according to regional development, not by proportion of population.⁵⁶¹ The Ma administration responded to the opposition that the “I-Taiwan 12” infrastructure project had been designed to balance north–south development, not this special proposal.⁵⁶² In fact, in order to prevent the DPP from using of southern identity issues in further challenges, following the 2008 presidential campaign, the KMT made a series of strategies in name of “listen to south people” but these were criticized as symbolic activities rather than useful regional balance policies.⁵⁶³ After Ma went to office, the inauguration banquet was held in Kaohsiung and the firework show celebrating the National Day was staged in the Love River, one of the famous landmarks in Kaohsiung city.⁵⁶⁴ On 8 April 2008, Terry Gou, the president of Hon Hai Precision Industry Company Ltd and famously “richest Taiwanese businessman” announced an investment project in Kaohsiung Software Science Park and promised to relocate the transit export from Vietnam to Kaohsiung harbour.⁵⁶⁵ The decision was generally believed as intended to

⁵⁶⁰ *United Daily News*, “Expanding Domestic Infrastructure, both Blue and Green Group are Unsatisfied with the Project of Expanding Domestic Need”, 23 May 2008 ; *United Daily News*, “An Half-Year Project of Expanding Domestic Infrastructure, 114.4 Billion Special Budget are Distributed to Local ,” 7 June 2008, A19.

⁵⁶¹ *United Daily News*, “Seven Green Group County Mayors Criticized Unfair Budget Distribution Proposed by Executive Yuan,” 26 May 2008, A4.

⁵⁶² *United Evening News*, “Economic Planning and Council: The I-Taiwan 12 Infrastructure Projects will Balance North South Regional Development”, 23 May 2008, A4.

⁵⁶³ During the presidential campaign, Ma Ying -jeou went to the villages to know what was actually going on in South Taiwan during his "long stay" programme which lasted close to 100 days.

⁵⁶⁴ *The Commercial Times*, “The National Banquet and North–South Cleavage”, 2 April 2008.

⁵⁶⁵ *Economic Daily News*, “President Ma Required: Hon Hai Group Invest Kaohsiung ,” 8 April 2008, A3.

support Ma's balance policy of north-south development before his inauguration. However, the series of measurements was later proved very limited to the KMT in terms of winning public support in the southern area. The 2009 local-level elections for county magistrates and city mayors, the first nation-wide election after Ma went to office, were widely seen as a touchstone of public opinion on Ma's performance in his first half-term. The DPP still enjoyed majority support in the main southern counties and cities.⁵⁶⁶

The resolution of the island's North-South split is always debated between having been policy driven or market driven. In views of a policy driven approach, except for the re-distribution of government budget and important public infrastructure projects mentioned above, the relocation of central government offices to the south was considered as the most useful aspect of the measure as when the government offices were moved, the new offices would attract more investment and stimulate the local peripheral economic activities. The critics pointed out that except for Southern Taiwan Joint Service Center of Executive Yuan and Taiwan Fisheries Bureau, the major 38 central offices were all located in Taipei which showed the service to be unfair to southern regional development – seven southern cities with an area of 27.7 per cent and population of 28.36 per cent of the total island.⁵⁶⁷ In views of a market driven approach, the arguments attribute the late and incomplete development of the southern region to the slow process of industrial upgrading and transformation. There was no reason why the newer industries, such as IT, Biotech, (especially oceanic fishing and marine resources), alternative resource (especially

⁵⁶⁶ Yung-ming Hsu (2000), "The Formation of Southern Politics in Taiwan? The Regional Disparities of Party Voting", *Social Science Quarterly*, Vol. 2, No. 4, pp. 167–196.

⁵⁶⁷ Zhen-ming Sun, "Balancing North-South Shortage, Part of the Central Government Office should be Relocated to South", *Economic Daily News*, 21 May 2008, A5.

solar), environmental production (especially food), medical, culture, creativity and tourism, could not have been established and well developed while the southern region enjoyed better natural resources and transportation infrastructures. The Kaohsiung Harbour and Airport are the biggest international harbour and airport of the island, and government had actually put more spending into higher education so that there is at least one national university in each major city.⁵⁶⁸ Meanwhile, some traditional manufacturing industries would still be competitive providing they could keep up with global market changes. For example, Taiwan is famous for its leading technology in the leisure boat manufacturing industry. The main 30 companies of this field contribute NT\$200 million annually in export and regional development of the relative machinery and metal manufacturing.⁵⁶⁹

8.4.3 The significance of North–South Split for DPP to return to the power

The existence of the north–south cleavage was advantageous for the DPP to consolidate its power base in these local areas. However, whether the DPP could make use of this issue to get central power back was questionable; the DPP could not depend on the KMT making mistakes on this issue, and DPP had not done a good job of balancing north–south either when they were in power during 2000–2008. Two good examples are the work of FTV and the failed proposal of capital relocation from Taipei to Kaohsiung. The FTV station was established by Chai, Trong-rong, the political heavyweight and famous legislator of the DPP. The TV station was generally

⁵⁶⁸ For example, National Cheng Kung University (Tainan), National Sun Yat-Sen University (Kaohsiung) and National Pintung University of Science and Technology are all leading university which play important roles (R&D, human resource) in the regional development.

⁵⁶⁹ *Economic Daily News*, “Developing leisure boat, machinery and metal manufacturing industry: the first episode of south regional development”, 10 April 2008, A18.

considered as a means of official public propaganda of the DPP since it emphasized and defined the mission and direction of the company as promoting and consolidating public Taiwan consciousness. Moreover, the news or programmes on this TV channel often reported DPP politicians' performances and provided them a platform to explain and debate for the individual's or party's policy standard. However, in addition to the headquarters being set up in Kaohsiung city, the major business of FTV was also finished and centralized in Taipei, indicating that the work of this pro-south TV station was also market driven rather than policy driven.⁵⁷⁰

As discussed in the previous chapter, the 2009 local-level election for country magistrates and city mayors was considered as an electoral defeat of Ma's administration after the KMT returned to power for 16 months. The DPP gained 45.32 per cent of all overall votes, 3.77 per cent more than the presidential election in 2008 (41.55 per cent), and 3.37 per cent (41.95 per cent) more than the local elections held four years previously. Moreover, as mentioned in the previous chapter, in the subsequent two legislative by-elections in January and March, 2010, the DPP recaptured six out of seven seats (the KMT only kept Hualian; the DPP won all three seats from Taoyuan, Taichung, and Taitung; two of three from Taoyuan, Hsinchu and Chiayi) which showed the recovery of DPP support from the shadow of the corruption trial of former president and DPP chairman Chen Shui-bian. Although the series of elections was considered as partial, or not nationwide, it was simply "non-urban" in that the major five populous cities and counties of Taipei, Taichung, Tainan and Kaohsiung were not included in the 2009 local elections and almost half of the island's population did not vote on that occasion; the KMT could have a "domino effect" and suffer yet another setback in the five large municipalities elections which

⁵⁷⁰ Interview with J. Ben Wei, who is director of legislator office of Dr. Chai Trong-rong; Legislator Tsai is inaugurator and current president of the FTV station, May 23 2010.

would be held at the end of 2010 after Ma's administration modified the local institutions laws in January 2009.⁵⁷¹ Meanwhile, it is interesting that in the named list of DPP candidates for the November mayoral elections in the five large municipalities, four of five candidates were political stars rising from southern counties and cities, except for Chairwoman Tsai Ing-wen, who decided to run for Xinbei (New Taipei) City mayor after shortly winning re-election as DPP chairwoman on 23 March 2010.⁵⁷² According to the recent United Daily News Public Poll, one of the major authoritative investigations in Taiwan, for the 2012 presidential election, if Ma Ying-jeou (KMT) runs against Su Tseng-chang (DPP), a DPP political heavyweight who will run for Taipei City Mayor (his background was introduced in Section 8.1.1 of this chapter) and rises from the southern region of Taiwan (Pingtung County Mayor), the KMT might lose power since Ma only has 29 per cent support, almost 10 percent less than the 38 per cent support of Su even though there are still 32 percent who have not yet decided.⁵⁷³

For Taiwan's democratic development, the DPP's return to power is obviously not the most important issue and it is good to see that the island's people are already confident to cast their ballots according to administrative performance, regardless of any internal ideological or passionate appeal or external interference, especially the military threat and economic leverage from China. For Taiwanese people, the KMT and DPP are already simply two companies competing for the same market in which the products are practical policies and governing ability, instead of previous historical sentiment or choice of national identity. As Mr You Si-kun said, the most important

⁵⁷¹ Chi-chang Hong, "The DPP still has a Long Road to Recovery", *Taipei Times*, 14 December 2009, p. 8.

⁵⁷² *The China Post*, "Tsai to Run for Xinbei Mayor", 24 May 2010.

⁵⁷³ *United Daily News*, "Public Opinion Poll: Survey on 2012 Presidential Election", 19 March 2010, <http://www.kmt.org.tw/english/page.aspx?type=article&mnum=114&anum=7790>

way the DPP can rebuild the trust of the people is to prove itself as having better ability to solve the country's fundamental problems than its counterpart, the KMT.

The major weakness of KMT politicians, including President Ma and future possible inheritors (such as current Vice Premier Eric Chu and Taichung City Mayor Jason Hu) are their common characteristics and similar personal backgrounds. These people all have an outstanding educational background (especially PhD degrees from the US or UK) and held important government positions in their early careers which was very advantageous for them to gain public support and media attention during the elections. However, after they went to power, their actual performance was far away from the public expectation, which demonstrates that governing ability is more important than any degree you have or any position you have held for any politics, no matter you are Blue or Green in Taiwan.⁵⁷⁴

Conclusion

After the discussions in this chapter, three obvious changes of the DPP's situation after they lost central power are found, and predicted to be influential to the Cross-Strait economic interaction and political talks. The changes reveal that the DPP had modified some of their policy orientation and learned a lesson from the mistakes during President Chen Shui-bien's tenure. However, some of the DPP's innate weakness and limitations are still the major difficulties for them to make a clear stand and win the popular support while the island's economy begins to integrate with China.

First, in perspectives of core political values, as a pro-Taiwan faction who makes efforts to achieve the island's *de-jure* independence, compared with its counterpart the

⁵⁷⁴ Interview with Mr. You Si-kun, former ROC Premier (2002–2005) and Secretary of President (2000–2002); Mr You rose in politics from his outstanding and creative performance during two terms as Yilan County Mayor (1989–1987); 8 May 2010.

KMT, the DPP cannot but define itself as a “Sovereignty Safeguard” and focus its criticism on the issue that the KMT is “selling out Taiwan”.⁵⁷⁵ This political appeal is helpful for the DPP to consolidate its fundamentalists, but not persuasive or advantageous for attracting more supporters, including the floating voters and a quite comprehensive growing number of the Taiwanese working population in mainland China whose voting priority is still the island’s economic stability – in which the island's economy cannot compete without a stable economic linkage, including China's huge market and manufacturing base for Taiwan companies.⁵⁷⁶ In addition to being perceived as a trouble maker in stable Cross-Strait economic interaction, the political stance that the DPP has long denied of the “One China policy” and rejection of the “1992 Consensus” actually created more difficulties and narrowed the space and flexibility of Cross-Strait negotiations with the CCP should the DPP have the chance to return to office and dominate the Cross-Strait negotiations in the near future. Under these circumstances, it has been found that the DPP’s mainland policy is believed to have become more moderate and pragmatic. They learned a lesson from Chen’s tenure that a provocative mainland policy will not help them to achieve their goal of independence but may escalate an unnecessary tension with China and social confrontation inside the island.⁵⁷⁷ One piece of evidence to support this tendency is the obvious reduction in the number of opposition demonstrators while the sixth CC

⁵⁷⁵ Jens Kastner, “Taiwanese Politics take Strange Turn”, *Asian Times*, 8 January 2011, <http://www.atimes.com/atimes/China/MA08Ad01.html>.

⁵⁷⁶ Ralph Jennings, “Taiwan Elections Put Pro-China Party in Lead for Presidency”, *Voice of America*, November 29 2010, <http://www.voanews.com/english/news/Taiwan-Elections-Put-Pro-China-Party-in-Lead-for-Presidency-110968749.html>.

⁵⁷⁷ David G. Brown, “Thinking about a Future DPP Government”, Pacific Forum CSIS, 23 March 2010, <http://csis.org/files/publication/pac1013.pdf>.

Talk was held in Taipei on 20 December 2010.⁵⁷⁸ Compared with the estimated 100,000 protestors who marched while the fourth CC Talk was held in Taichung, the scale of the demonstration was relatively smaller and without DPP's sponsorship.

Second, in perspective of party transformation, it is good to see there was a manifest increasing support for the DPP in the 2009 and 2010 local mayoral elections, indicating that chairwoman Tsai Ing-wen had consolidated her leadership in the process of power transition inside the DPP.⁵⁷⁹ The DPP's victory also shows Tsai's strategy to steer the party towards a more centrist platform has been effective, and the changed policy orientation towards the avoidance of political ideological debate, such as the provocative and radical anti-China rhetoric during President Chen Shui-bien's tenure, which had caused unnecessary controversies and confrontation, and even suspicion from the US. The other efficient strategy which contributed to the increasing support was that the DPP recaptured its traditional talent in the local election campaign during the KMT authoritarian control. They have a better and correct understanding and interpretation of ordinary people's psychology and perception on the minimal change of the political situation.⁵⁸⁰ When the Cross-Strait economic relation became stable after 2008, the main two public opinions inside the island were that people pay more attention to the candidates' characters and abilities and expected a bigger counterbalance to the KMT who enjoyed a huge political

⁵⁷⁸ Shu-lin Ko and Vincent Y. Chao, "ARATS Delegation arrives in Taipei", *Taipei Times*, 21 December 2010. <http://www.taipeitimes.com/News/front/archives/2010/12/21/2003491489> ; *New York Times*, "Taiwan Protests Flare Over Visit of China Envoy to Sign Accords", 20 December 2009, http://www.nytimes.com/2009/12/21/world/asia/21iht-taiwan.html?_r=1&ref=world

⁵⁷⁹ David Yang, "Mayoral Elections show Increase in Support for DPP", *The China Post*, 28 November 2010, <http://www.chinapost.com.tw/taiwan/national/national-news/2010/11/28/281629/Mayoral-elections.htm>

⁵⁸⁰ Chi-chang Hong, "Economy Key to Looming Elections", *Taipei Times*, 20 September 2010, p. 8.

dominance after 2008 but showed a very poor government performance.⁵⁸¹

Third, in terms of social economic perspectives, as the analysis in Chapter 8.3 demonstrated, the DPP did not make use of the good opportunity of the inefficiency of the series of KMT open door policies – including attracting Chinese tourists, increasing Chinese investment in Taiwan, and starting regular direct flights to the mainland – to produce direct and clear effects on the island’s economy in the short run. The DPP did not propose a more constructive or practical plan to solve the main social economic problems of the island’s emerging “M -Shaped society”,⁵⁸² the widening gap between rich and poor, but criticised the new Cross-Strait deals – especially the signing of ECFA. The DPP considered the pact beneficial only to big businesses and China, but harmful to those losers including small and medium enterprises, the unemployed, farmers, and workers in Taiwan’s new economic environment.⁵⁸³ Nevertheless, it is reasonable that the DPP’s traditional “leftist” and “isolationist” approach⁵⁸⁴ to Cross-Strait economic and trade relations definitely led their policy orientation to pay more attention to fair social wealth distribution and relatively more conservative support to economic development in the mainland China market. However, the major difficulty for the DPP to demonstrate that their social

⁵⁸¹ Dafydd Fell, “Election Season Returns to Taiwan: Prospects for Taiwan's National Elections in 2012”, *Brooking Northeast Asia Commentary*, No. 47.

www.brookings.edu/opinions/2011/0307_taiwan_election_fell.aspx

⁵⁸² The M-shaped society refers to a polarized society with the extreme rich and poor. The middle class in the M-shaped society gradually shrink, even disappear. This change explains opportunities and fair competition become fewer and fewer. In a well-developed modern society, the middle class is the bulk of the society and the ladder for the lower-income group to become part of the upper class. About more details, please see: Ohmae Kenichi (2006), *The Impact of Rising Lower-Middle Class Population in Japan*, Tokyo: Kodan-sha Publishing Company.

⁵⁸³ Ibid.

⁵⁸⁴ Ibid., Chi-chang Hong (2010), p. 8.

economic policies were better than those of the KMT was that the DPP's traditional advocacy of developing high-tech industry inside the island, renewing the island's moribund agricultural sector, and seeking more environmental protection was easily replaced by its counterpart, especially when the KMT was in power. For example, in recent times, Ma's KMT administration has raised many of the same ideas including a series of measurements such as taxing expensive property and luxury cars, developing six new pillar industries, and stopping an offshore oil refinery project in July 2011 following environmental protests.⁵⁸⁵ The situation shows that the DPP's attempts to make use of the social economic issues mentioned above to challenge the KMT's administration or stop deeper Cross-Strait economic interaction has been relatively limited and ineffective.

⁵⁸⁵ Ralph Jennings, "Taiwan Opposition Candidate Would Seek Deals With China", *Voice of America*, August 5, 2011, <http://www.voanews.com/english/news/asia/east-pacific/Opposition-Candidate-in-Taiwan-Would-Seek-Deals-With-China-122654379.html>.

Chapter 9 Conclusion

Introduction

The general conclusion of this dissertation is that democratization in Taiwan over the past 60 years (1949–2008) can be considered as successful, but has produced internal and external problems of Blue–Green conflicts, north-south regional development and “distinctness from China” that the direction of democratic development is abandoning the One China principle and moving toward Taiwan’s independence (empirical findings) when the China’s economic power was growing fast and more influential to the global economy after 1990 . The island’s external political economic development and the internal social economic structure were also actually being reshaped and influenced by the change of global economic environment.(historical findings). Moreover, these fundamental cleavage and sovereignty controversies with China (the characteristics are also defined as the weakness of Taiwan democratic system) are also examined and proved as real and problematic by the major theories of democratic development (including modernization, transition , and structural approaches) and constitutional choice .The weakness of democratic system have negatively impacted upon the island’s external political and economic development, including the difficult mutual trust and consensus building on Cross-Strait negotiations, and a diversified trade policy which caused inefficient support of the Taishang’s development in mainland China especially with the closer Cross-Strait interaction after 2008. The analysis of the relationship between the weakness of a democratic system and its interplay with the system’s external political economic development are also established by the major theories of International political economy (IPE). The more details about the three

theoretical, two historical and three empirical findings mentioned above will be listed in the first section of this chapter (9.1) and taken as the evidence to support the central argument and three major hypotheses of this dissertation (9.2). Two limitations (9.3) and two applications (9.4) of this research are also found in this concluding chapter.

9.1 Research findings

9.1.1 Theoretical findings

The theoretical discussion of this research has focussed on two major fields: the democratic transition and the international political economy (IPE). The former discussion has clarified the reasons, patterns, and types of democratic transition processes. The various institutional designs and their political consequences were examined in Chapter 2. The discussion of IPE field looks at: the work of international economic organizations, the logic of a diversified trade policy (protectionism or open-door), the currency policy, and the advantages of multi-national corporations (MNCs).

After applying these theories into the case of Taiwan's democratic development and Cross-Strait economic interaction, three theoretical findings can be arranged and concluded as follows.

First, regarding the democratic transition in Taiwan, as discussed in Chapter 3.1 Critics and Taiwan Uniqueness (Page 43), three approaches of thinking (modernization, transformation, and structural) on the reasons for the regime change are all applicable to the process of Taiwan's democratization. The successful economic development in 1980 not only helped the island to become more modernized and successfully integrated into the global economic order, it also

provided the development of this democratic system with greater stability and less risk so that the authoritarian KMT was not the limiter of democratization but the biggest beneficiary of successful political liberalization and economic privatization. Meanwhile, the democratic transition in Taiwan's case can be categorized as of a "transformation" type; the elites in power took the lead in bringing about democracy (or incumbent-led caretaker government) when the opposition power was weaker than the authoritarian incumbent (transition approach). The existing ethnic tension between mainlanders and native Taiwanese was not intense or a threat to the democratic development since a comprehensive accumulation of social wealth helped to create a middle class and reduced the ethnic tension, making the process of democratic development smoother and more peaceful. Nevertheless, democratization in Taiwan had obviously caused a Blue-Green conflict: a structural cleavage in national identity, social economic class, and regional development. The unbalanced regional development was also considered as a north-south cleavage which enhanced the Blue-Green conflict. Compared with the supporters of KMT, the traditional supporters of DPP were "the minor urban and rural working classes" mostly located in southern Taiwan. Those people were at same time the most "deeply attached to a natives Taiwanese identity" and "responsive to ethnic mobilization".

Second, the democratic development in Taiwan had revealed a uniqueness of constitutional choices and a series of institutional problems caused by its individual historical background and political power struggle during the democratization. Comparing the theoretical classification in Chapter 3.2 (constitutional choice and its political consequence), it is interesting that Taiwan should adapt inherited parliamentarism from the Japanese colonizers whose form of government was a typical monarchy with a parliament, yet Taiwan did not experience any revolution prior to World War II. However when the KMT took over Taiwan after World War II,

the form of government of the island was a presidential system with a limited local election. Add to this that democratizing dictatorships tend to retain presidentialism, and countries in which the monarchy has been abolished (France in 1848 and again in 1875, Germany in 1919) and colonies that have rebelled against monarchical powers (the United States and Latin America in the late eighteenth and early nineteenth centuries) have replaced monarchs with presidents (see Chapter 3.2). The difference here is that the Japanese monarchical powers were withdrawn by the United States, and not by a successful rebellion from the island; therefore, the form of the ROC government undoubtedly experienced the typical problems of a presidential system – especially the divided government and minority president – after democratization and maturation of the multiparty system. Even though the later electoral reform had produced a majority formula which led to a two-party alternation system with more stability, professionalism and clear accountability (Table 3.1: Democratic Performance of Presidential, Westminster and Consensus Models), there was an unclear division between president and premier and hence the problem of a divided government with a minority president mentioned above. Historical evidence will support these theoretical findings in the discussion that follows in Chapter 9.2.2 (historical findings).

The third theoretical finding concerns the analysis of the island's democratic development in international political economic perspectives. As discussed in Chapter 4 (IPE Theories and Cross-Strait Relations), China's growing economic power and rapid Cross-Strait economic interaction created three major difficulties for Taiwan to face, as follows. First, the difficulty concerning the increasingly limited international space for economic activities and subsequent marginalization from the global economic order due to China's intentional obstruction (One-China policy driven). China had played the role of a regional hegemonic power which was advantageous for

its bilateral economic interaction in East Asia. Even though China could not compete with the US superpower who led the multilateral-cooperation in worldwide international organizations, the growing regional economic influence was strong enough to block the island's space for international economic activities. The second difficulty for Taiwan was the negative effect of the rapid movement of Taishang. As discussed in Chapter 4.3 (the role of Taishang), Taishang are defined as another kind of multi-national corporation (MNC) and enjoy five typical advantages (monopoly, location, ownership, international and technology) by entering the Chinese market. Even though the relocation of Taishang was considered a "reluctant" movement it was necessary in order for them to keep their international competitiveness, the rapid exodus of Taishang caused a "hollowing out" of the island's industries, the destruction of the internal vertical division of labour, and higher unemployment in which labour intensive plants fled and low-paid mainland workers "took jobs away". The third difficulty for Taiwan concerned the effects on the island's further political development. As per the three conclusions of Chapter 4, the rapid cross-strait economic exchange (open door or protectionism) would enhance the existing Blue-Green conflicts as each group diversified, there were even contradictory perspectives on the priority of development, the role of China, Cross-Strait trade relations, the island's economic security, and domestic interests. While the KMT Blue camp still believed that peaceful and smooth cross-strait interaction and economic prosperity were the best guarantee for the island's further democratic development, the DPP Green group criticized that closer Cross-Strait economic interaction was only advantageous for the capitalists and not for the general public on the island as a whole. (The DPP constantly criticized that the KMT only paid attention to the northern interests as most capitalists lived in the north of Taiwan.) Under the threat of the small island's asymmetric dependence on the huge Chinese domestic market, Taiwan would

lose its political sovereignty and economic security (i.e. the loss of core technology) if the development of island relied only on the benefits from cross-strait economic interaction.

9.1.2 Historical findings

The empirical studies of this research are divided into two parts for discussion. The former and this (historical finding) part of the discussion concerns the almost 60 years of Taiwan's political economic development history, 1949–2008. Several characteristics and patterns of Taiwan's democratic development have been indentified in addition to useful evidence to support the theoretical findings mentioned above. The historical findings can be concluded in the following two dimensions.

First, while reviewing the highest political values and their influence on decision making and relative measurements, the most significant change in characteristics is that the successful economic growth in the 1980s and the democratization in the 1990s had given the island's leaders increased confidence and greater motivation to seek more autonomy. This psychology gradually led the leaders to abandon the One-China principle and go down the road of independence. In the discussion of Chapter 5 (Pre- democracy of Taiwan: under two Chiang's authoritarian control), the researcher found that despite the local elections since 1951, Chiang Ching-kuo's Taiwanization policy and tolerance on the growth of the opposition were efficient democratic measurements that provided the island's populace with a certain degree of political participation and were also very helpful for the KMT mainlanders to reduce tension with local Taiwanese. The fundamental logic and values of the two Chiang's authoritarian control period were the recovery of mainland China, and the function of

democratic ROC in Taiwan as the role model for further political development in the mainland. After two Taiwanese presidents, Lee tung-hui and Chen Sui-bian, went to office during 1990–2008, the fundamental logic of political reforms had changed from a “role model” for China to a “distinction from China” demonstrating that Taiwan was a modern democratic country. Even though the series of political reforms, including Lee’s three stages of constitutional revisions and Chen’s promotion of public referendum, were perceived as the means of a political struggle, and not a result of rational calculation, the abolition of the National Assembly, the Provincial Government and reduction by half of legislators were considered efficient political reforms that contributed to the normal work of Taiwan’s democratic system.

The second historical finding relates to an external change of Taiwan’s international political economic development. As the analysis in Chapters 5 and 6 showed, the island’s economic development was dominated by the two super powers, the United States and China. China’s growing economic power after 1990 was undoubtedly the milestone of the island’s direction in its external political economic development, which also reshaped the island’s internal social economic structure. Before 1980, along with two-Chiang authoritarian control and US military protection and economic aid, the external peace and internal stability had helped the island achieve a rapid economic recovery after World War II, and successful industrial upgrading and integration into the global market during the 1970–1980s. After 1980, huge number of Chinese workers started to enter the international division of labour, accompanied by a rapid exodus of Taishang (Taiwanese businessman), Taiwan started to lose its share of global economic advantages at the bottom end of the economical product life cycle. This also worsened the condition of the island’s social economic inequality and Blue-Green confrontations in politics. As discussed in Chapter 3.5 (Critics and Taiwan Uniqueness), the Blue-Green conflict was a structural cleavage in

national identity (reunification or independence), social class (capitalists or labour interests), and regional development (north–south). When Taiwan moved her focus to the growing Chinese market, regardless of the island’s willingness or reluctance, sovereignty controversies between Taiwan and China had made Cross-Strait economic issues unavoidable and increasingly complex for any prominent leader to take domestic political factors into consideration.

9.1.3 Empirical findings

The other empirical studies of this research are the discussions about the democratic development, the Cross-Strait economic interaction, and the role of the two main political parties (DPP and KMT) after the second party alternation in 2008. Two empirical findings are clarified and concluded in Chapter 7 (The Democratic Development and Cross-Strait Relations after KMT’s Return to Power) and Chapter 8 (The Development of DPP after it Lost Power in 2008).

First, the weakness (Blue-Green cleavage) and problems (risk of minority president and divided government) of the nascent democratic system had caused difficulties for the island’s external political economic development, especially on the further work of Cross-Strait economic interaction and political negotiations. As concluded in Chapter 7, the strategy of the Ma’s administration was concentrated on defining the agreement of Cross-Strait talks at the “executive and domestic” level, rather than “beyond the border”, and thus the intra party mechanism could easily perform decision making functions. The methods of negotiation obviously violated basic democratic norms and principles in terms of transparency and efficient consensus building with the opposition. Meanwhile, the smoothness and efficiency of future cross-strait negotiations with another minority president and divided

government would likely be affected. If a divided government were to happen again, similar with the situation in the DPP's tenure (2000–2008), it can be seen that an inefficient and inconsistent mainland policy will likely influence the normal and regular work of cross-strait political dialogues and economic cooperation.

Second, the closer Cross-Strait interaction after 2008 did not produce a direct, manifest and complete influence on the island's internal social economic development. The effects of the series of KMT's open door policies to China was indirect and marginal and most people on the island did not have strong feeling about these major changes in their daily lives – except for those Taiwanese Businessman (Taishang) who had frequently moved between the mainland and Taiwan. The discussion in Chapter 8 revealed that the DPP also made use of these opportunities to criticize the KMT's open door policies, especially the signing of MOU and ECFA. However, the major finding of Chapter 8 was the island's long-term economic difficulties (expanding social economic inequality) and existing uneven north–south regional development. If the incumbent KMT cannot deal with these problems in the future well, it is really a possible opportunity for the DPP to return to central power.

9.2 Test of hypothesis

First, after the historical discussion and empirical research, Hypothesis 1 is proved as correct, the function of democracy for Taiwan is providing a distinction from CCP China and rejecting a further political integration with mainland. However, the basic logic and direction of the function has gradually transformed from consolidating the KMT's minority control and reducing internal ethnic conflicts (tension between mainlanders and native Taiwanese) to rejecting the possibility of future reunification with China. In the two Chiang authoritarian control period, the promotion of limited

democracy (the holding of local elections since 1956) had helped the KMT to consolidate its power and legitimacy of regime while the KMT was made up of minority mainlanders who immigrated to Taiwan in 1949 and started to face a series of foreign setbacks when Communist China established official foreign relations with the US and gradually replaced Taiwan's seats in the international organizations. Later, when the two Taiwanese presidents, Lee Teng-hui and Chen Shui-bian, came to power (1988–2008), the idea of democracy was still a useful tool for the island to consolidate its legitimacy and power to distinguish itself from mainland China while gradually transforming its logic and direction. The successful birth of democracy was no longer just a demonstration for further political development in mainland China; it had become another mechanism for the island to reject further political integration with China, and perhaps the best reason to build an independent country. In a word, democratization can be considered as the process of abandoning the One-China principle.

The second theoretical hypothesis concerns the work and problems of the island's established democratic institutions (Hypothesis 2). The historical discussion in Chapters 5 and 6 provided evidence that eagerness to highlight the achievement of the island's democratic development was actually the cause of several shortcomings and weaknesses (these problem can be also considered as an inappropriate institutional transplant from other leading countries) in the established institutions – including the confusing form of central government, high possibility of executive–legislative deadlock (when there is a minority president) and disproportionate outcome of electoral vote and seats for legislator elections. Moreover, on the contrary, the institutional problems also produced difficulties when a political party enjoyed a majority in the executive and legislative bodies. As discussed in Chapter 7 (The democratic development and Cross-Strait Relations after KMT back to

power in 2008), by making use of the confusing forms of central government and unclear responsibility and division between President and Premier, it is obvious that the KMT government tended to ignore the legislative supervision and neglect the need of scrutiny for the risk of cross strait agreement after they went to central office after 2008. The strategy of the Ma's administration was to define the agreement of cross strait talks in the "executive and domestic" level, rather than "beyond the border", and thus decision making can be easily performed via the intra party mechanism. The method of negotiation has obviously violated the basic democratic norms and principles in terms of transparency and efficient consensus building.

The third hypothesis of this research argued that deeper integration with the mainland China market might have caused deterioration in the existing problems of the island's social economic inequality, and was perhaps even advantageous for the development of extremist politics. However, this researcher found the situation was not as serious as predicted; the closer cross-strait interaction after 2008 did not produce a direct, manifest and complete influence on the island's social economic development. The island's economic integration with mainland China in some aspects could be considered as a part of the economic globalization. There is simply a certain small part of the Taiwanese populace who are involved in the waves of immigration and investment in China. In other words, even though the Ma's administration's series of open door policies, including expanding direct links, mainland tourists visiting ,and signing of MOUs and ECFA, were actually a big step towards closer cross-strait economic cooperation, as argued in Chapter 7 (The Democratic Development and Cross-Strait Relations after KMT Returned to Power in 2008), the effects of these measurement were still very limited and marginal and most people on the island (except for those Taiwanese Businessman (Taishang) who frequently moved between the mainland and Taiwan) did not have strong feelings about these major changes in

their daily lives.

9.3 The limitations and further implications of this research

9.3.1 Limitations

The first limitation of this research is that the discussion about democratic values only focuses on the ideas of the core political elite (highest leaders). This approach is useful while studying the democratic values in the two-Chiang's authoritarian control period since the populace did not have influence on policymaking. However, afterwards, when martial law was lifted in 1986, the island's society became more diversified and liberal for greater political participation. Therefore, the more comprehensive understanding about public perspectives and expectations on the development of democratic institutions and systems that is necessary relies on a quantitative research, not just the qualitative method adopted in this research.

The second limitation concerns the research of Taishang. The effect of the rapid movement of Taishang is not just an economic issue. Their special working and life experience in mainland China are undoubtedly influential to the development of their political thinking and perspectives on democratic development, especially the mentality of their younger generation who stay even longer in China than their parents. While more and more people emigrate from Taiwan to mainland China, it cannot be ignored that the immigrants still have basic, but very powerful, democratic rights: voting for the highest political position. Therefore, further investigation about the political thinking and effects of this group of people is of interest and worthy of further investigation. So far, the result of this essay predict and assume that the Taishang and their younger generation will have stronger democratic values, the

Taiwan identity, support of a democratic system, and more political participation than the people on the island since their initial contact with the CCP has enhanced their views concerning the values of and confidence in the established democratic systems.

9.3.2 Applications

As the second empirical finding mentioned in the previous section, the work of Cross-Strait negotiations might not be so smooth and efficient in the future if there is another minority president and divided government like the situation during the Chen Shui-bian tenure between 2000 and 2008. In long-term perspectives, the most difficult lesson for the nascent democracy in the future is whether a small island with a democratic system is capable and effective to cope with the challenge from a big authoritarian communist country. The asymmetric institutional competition is also an interesting topic which is worthy for further comprehensive research and investigation. So far, the situation is not all bad news for Taiwan. After the research of this essay, it can be seen that the CCP was antagonistic if Taiwan wanted to secede from China, but did not show any disagreement on the island's democratic development (i.e. neither the official Chinese delegates of Cross-Strait talks nor the general mainland tourists show any great reaction to the protest and demonstrations on the street which were organized by the DPP or any other anti-CCP opposition groups). The situation demonstrates that the closer Cross-Strait interaction were not an entirely negative component of the island's democratic development. It also explains that to some extent, , when China is happy to see themselves become another international superpower in the eyes of international community, contrasting with its strong military and economic performance , the CCP 's authoritarian control appears out of fashion and weak to deal with internal problems especially the corruptions inside

party. However, whether CCP would consider the democracy as a mechanism to bring the authoritarian regime a new legitimacy, help CCP itself to transform to a democratic party, and even accept the existence of opposition and dissidents who are currently considered by CCP as a “destruction force”. The issue is worthy of a further investigation, and it is also necessary to understand the possible pattern of political forms and its relation with Taiwan democratic experience. The relations means that China will imitate, learn the lessons from Taiwan, or create an individual style of Chinese democracy which is totally different with Taiwan democratic system.

For Taiwan’s democratic development, the researcher of this essay defines the distinct feeling and mentality between immigrated Taishang and the island’s general public as another kind of “east–west cleavage”. Along with the existing north–south cleavage, the unequal regional development discussed in Chapter 8, the “east–west cleavage” can be considered as a new social economic structure of Blue–Green conflicts (more immigrated Taishang support the Blue camp; more island’s general public support the Green camp) and reflect different attitudes to the island’s further democratic development. For those Taishang in mainland China, in order to ensure economic benefits from the mainland market, stable Cross-Strait relations are preferred and require more efficient negotiations between the two governments. Therefore, the evaluation and expectation of the democratic system of this group of people might be lower than the island’s general public who are concerned more about the issues of fair social wealth distribution, including unemployment, income, and social welfare. Moreover, the other significant difference also supports this idea. Compared with their compatriots in mainland China, people in Taiwan have enjoyed and exercised their political right to vote for years. These important political rights definitely enhance their understanding and support of the democratic system. In recent times, the ROC government has been evaluating the possibility of postal and proxy

voting for Taishang – even setting up special polling stations in mainland China. The effects and political consequences of this measurement make an interesting topic and a new dimension which is worthy of further research and investigation.

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List of Interviewees

No	Date	Interviewee	Title	Chapter /Footnote	Question
1	1 st of June 2008	Lee Ze –ren	Father of author ; One member of the KMT landing troops in 1949	Chapter 5/ 210	The friction between KMT landing troops and local Taiwanese in 1949
2	1 st of May 2009	Sun Jia-rong	The former captain of Eva Air	Chapter 7/ 392	The Fifth Freedom of the air
3	12 th of December 2009	Chen Shou-shen	Deputy manager of Yang Ming Marine Transport Corp.	Chapter 7 /394	The effects of Direct Link (Ocean Shipping)
4	16 th of November 2009	Wu Yi-long	The general manager of Dragon Group (Travel Agent)	Chapter 7/396	The effects of Direct Link (Air Flight)
5	12 th of March 2010	Lin Ching-ming	President of Stone& Resource Industry R&D Centre; Chairman of Taiwan Marble Association	Chapter 7/428	The effects of signing ECFA on Taiwan traditional industry

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6	27 th of April 2010	Chen Shui-sheng	1.Chairman of KMT Taoyuan Branch (2008~) 2. Director of Cultural Affairs Bureau, Taoyuan County Government (2004-2008) 3. KMT Legislator (2001-2004)	Chapter 7/480	The performance of Ma's administration after 2008
7	31th of March 2010	Ting Shou-chung	Senior KMT Legislator (1994~)	Chapter 7/481	The performance of Ma's administration after 2008
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9	22th of May, 2009	Jade Wang	The agent of Taiwan House	Chapter 8/549	The problem of high housing price in metropolitan areas
10	29 th of April 2010	Hu Yi-wen	Section Chief of R&D Department Revenue Service Office, Taipei County Government	Chapter 8/532	The controversial tax policies of imputation system
11	23th of May 2010	J .Ben Wei	Director of Legislator Office of Dr. Chai Trong-rong	Chapter 8/565	The work of FTV (Formosa TV) station
12	8th of May 2010	You Si-kun	Former ROC Premier (2002-2005) Secretary of President (2000-2002)	Chapter 8/569	The possibility for DPP to return to the central power